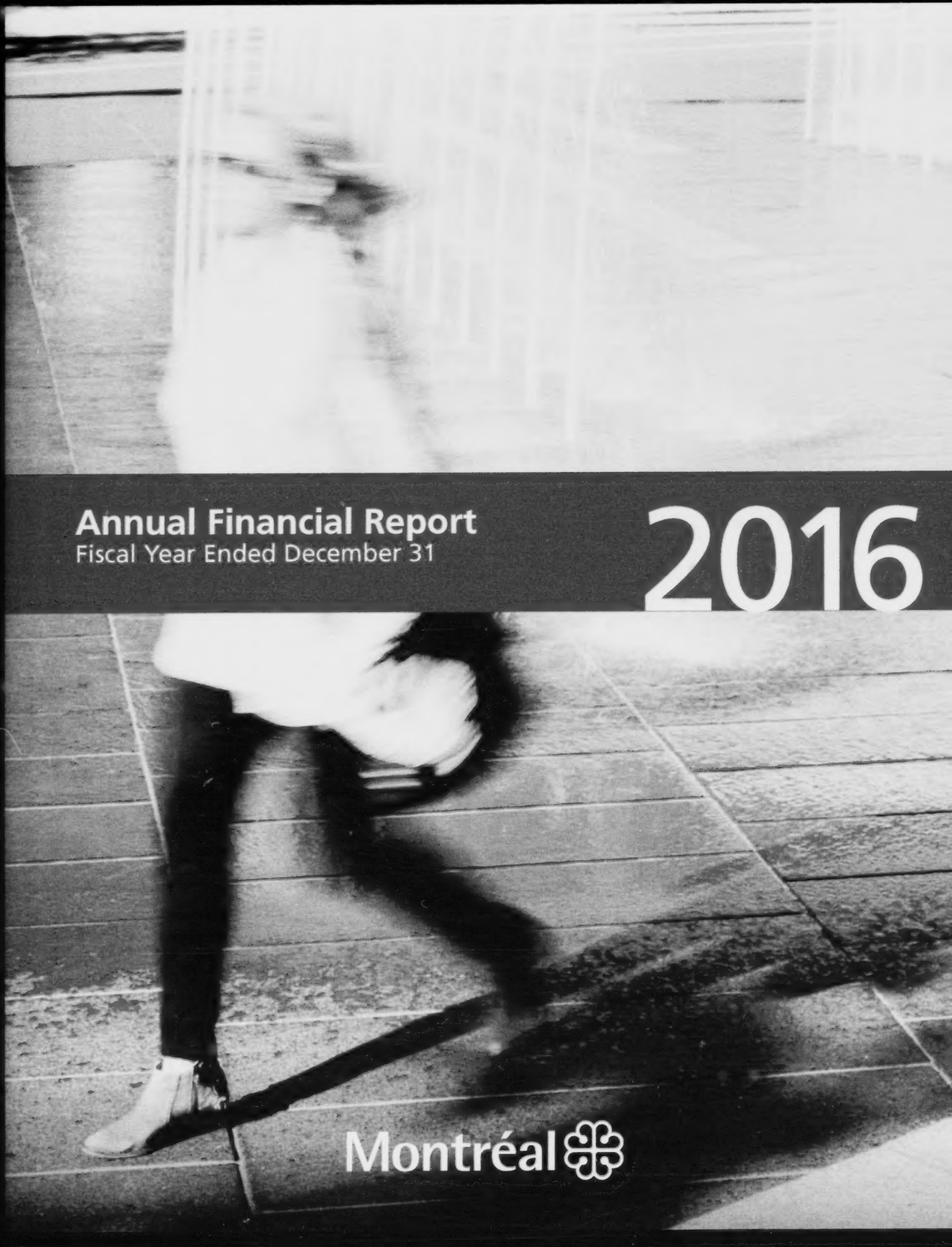

Annual Financial Report
Fiscal Year Ended December 31

2016

Montréal

Annual Financial Report
Fiscal Year Ended December 31, 2016

2016

Deposited at the City Clerk's office of the
Ville de Montréal on April 19, 2017

Montréal

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Introduction

2016

Message from the Mayor

Dear Fellow Montrealers,

Montréal's 2016 Financial Report reflects our administration's ongoing effort, since taking power in 2013, to maintain tight, effective control over public spending.

Fiscal 2016 was no exception, ending with an overall non-consolidated surplus of $139.1 million, the combined result of revenue growth and tight control over operating costs.

The net increase in revenues, which stood at $40.5 million, reflects Montréal's sound economic performance and increased real estate activity in the metropolis in 2016. Property transfers brought in $43.6 million more than budgeted in a market that saw increases of 2.8% in real estate transactions and 4% in average transaction value.

Another sign of Montréal's economic revival is the $9.2 million increase in city revenues from licences and permits, mainly building and modification permits for large projects such as Hotel Fairmont The Queen Elizabeth, the towers in the Bell Centre area and the Complexe des sciences de l'Université de Montréal.

Tight control over operating costs and financing costs yielded savings of $69 million compared to the 2016 budget. Most municipal sectors, and all boroughs, shared in this cost cut.

This figure is all the more impressive considering that major investments were also made during the year, specifically a $35.9 million increase for amounts allocated to upfront payment of capital investments, additional contributions of $13.4 million and $12.7 million, respectively, to economic development and cultural organizations, and an additional contribution of $3.1 million to the Société de transport de Montréal (STM) in respect of its operating costs (excluding SOFIL) for a real contribution of $432.9 million in 2016, an increase of 3.4% compared to 2015.

Upfront payment of capital investments amounted to $311.5 million in 2016 versus $230.0 million in 2015, an increase of 35.4%. This increase in amounts allocated to upfront payment of capital investments results from the strategy deployed to finance an ever-growing share of our investment in infrastructure repairs, without unduly increasing the municipal debt burden.

In capital asset activities, we intensified our commitment to rebuilding Montréal's infrastructure through record investments totalling $1.16 billion in 2016, up 25% from 2015. Capital spending has risen more than 59% in three years.

Montréal is on the right track. The economic recovery has taken firm hold, with rising employment, growing investment and the Government of Québec poised to grant us new powers and responsibilities related to our status as a municipality. On our side, we will continue to encourage this growth by maintaining tight cost control in line with what citizens can afford to pay.

In closing, we would like to thank all the municipal employees who, through their work, dedication and commitment are helping us to achieve our goals and restore Montréal's great reputation and stature as a modern, integrated, efficient, sustainable and innovative metropolis.

The Mayor of Montréal,

Denis Coderre

Message from the Treasurer

Ladies, Gentlemen

We are pleased to present the Ville de Montréal annual financial report for the fiscal year ended December 31, 2016. The first part of this report presents a consolidated version of the city's financial data, namely data for the entity formed by the Ville de Montréal and the organizations included in its reporting entity. The second part contains an analysis of the municipal administration's financial information (excluding the organizations in its reporting entity).

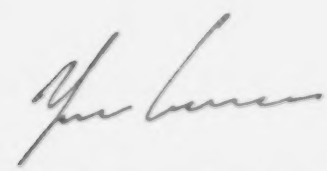
The Ville de Montréal's 2016 fiscal year shows a non-consolidated operating surplus for tax purposes of $139.1 million. Sound management of public funds, prudent and responsible management of the city's debt and compliance with the fiscal 2016 financial outlook all contributed positively to these results.

The surplus of $139.1 million ($145.8 million in 2015) is mainly the result of higher income, combined with savings in operating costs, compared to the previously submitted operating budget.

The city's non-consolidated overall revenues came to $5,022.0 million, up $40.5 million (0.8%) compared to the previously submitted operating budget. This increase is the result of an active real estate sector, which generated $66.4 million in additional income, or $13.6 million from taxation of new buildings resulting from an increase in the tax base and $52.8 million from property transfers or building permits. This increase is offset by changes in tax revenue, including a $35.8 million decrease in terms of fines and penalties.

The city's non-consolidated operating, financing and allocation costs stand at $4,882.9 million, down $98.6 million (2.0%) compared to the operating budget. This decrease is mainly the result of savings in professional and technical services, leasing and maintenance costs and allocations.

In closing, we offer our sincere thanks to all of the city's employees, who made a positive contribution to these results.



Yves Courchesne, CPA, CGA
Treasurer, Ville de Montréal

NON-CONSOLIDATED OPERATING SURPLUS (DEFICIT) FOR TAX PURPOSES BY RESPONSIBILITY *(in thousands of dollars)*

	2016								2015
	Local responsibilities		Urban agglomeration responsibilities		Eliminations		Total		Total
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Actual
Revenues									
Taxes	3,202,693	3,215,632	46,070	46,767			3,248,763	**3,262,399**	3,173,700
Payments in lieu of taxes	247,844	252,329					247,844	**252,329**	254,545
Quota shares			2,246,308	2,241,298	(1,841,196)	(1,836,545)	405,112	**404,753**	406,084
Transfers	157,724	163,819	95,498	80,716			253,222	**244,535**	256,024
Services rendered	273,274	281,939	58,135	60,847	(21,057)	(28,748)	310,352	**314,038**	304,688
Fee collection	168,019	220,893	1,943	1,883			169,962	**222,776**	196,809
Fines and penalties	106,827	90,355	92,718	73,378			199,545	**163,733**	170,757
Interest	65,165	79,013	54,948	59,037			120,113	**138,050**	133,630
Other revenues	24,325	15,536	2,237	3,834			26,562	**19,370**	28,647
	4,245,871	4,319,516	2,597,857	2,567,760	(1,862,253)	(1,865,293)	4,981,475	**5,021,983**	4,924,884
Operating expenditures									
General administration	513,286	452,891	347,040	329,015	(20,643)	(25,495)	839,683	**756,411**	790,124
Public security	14,457	14,501	1,015,838	1,033,605	(121)	(729)	1,030,174	**1,047,377**	1,037,140
Transportation	394,995	382,599	529,988	525,418		(444)	924,983	**907,573**	870,125
Environmental hygiene	205,839	199,126	227,639	240,559		(1,268)	433,478	**438,417**	419,298
Health and welfare	59,048	58,799	36,416	30,542			95,464	**89,341**	92,033
Urban planning and development	151,134	136,579	58,537	74,431	(293)	(809)	209,378	**210,201**	193,987
Recreation and culture	437,011	465,832	96,130	94,039		(3)	533,141	**559,868**	523,338
Financing expenses	254,255	244,603	140,622	138,344			394,877	**382,947**	377,064
	2,030,025	1,954,930	2,452,210	2,465,953	(21,057)	(28,748)	4,461,178	**4,392,135**	4,303,109
Quota shares for financing urban agglomeration activities	1,841,196	1,836,545			(1,841,196)	(1,836,545)			
Operating surplus before financing and allocations	374,650	528,041	145,647	101,807			520,297	**629,848**	621,775
Financing									
Repayment of long-term debt	(271,884)	(275,024)	(175,518)	(174,288)			(447,402)	**(449,312)**	(387,159)
Allocations									
Capital asset activities		(6,678)		(1,946)				**(8,624)**	(25,329)
Restricted operating surplus	35,127	57,732		10,723			35,127	**68,455**	41,689
Financial reserves and reserved funds	(117,261)	(136,870)	(86,485)	(95,051)			(203,746)	**(231,921)**	(104,115)
Recognized expenditures to be taxed or funded	(20,632)	(1,752)	116,356	132,426			95,724	**130,674**	(1,048)
	(102,766)	(87,568)	29,871	46,152			(72,895)	**(41,416)**	(88,803)
Operating surplus (deficit) for tax purposes for the year		165,449		(26,329)				**139,120**	145,813

The Island of Montréal and its Population

The Municipal Organization 2016

Pursuant to the *Act respecting the consultation of citizens with respect to the territorial reorganization of certain municipalities* and the *Act respecting the exercise of certain municipal powers in certain urban agglomerations*, and amendments, the city's powers of administration are divided among the urban agglomeration and local authorities. As the central city of this urban agglomeration, Montréal continues to provide services and to manage collective equipment for all island residents, within the city itself and within the 15 reconstituted municipalities.

These common services are provided by Ville de Montréal employees. Since 2009, the Island of Montréal's 16 related municipalities have been required to fund all shared services that fall under the Urban Agglomeration Council's authority with quota shares. This system of funding urban agglomeration responsibilities results from legislative changes introduced by *An Act to amend various legislative provisions concerning Montréal (Bill 22)* that was adopted in June 2008.

This Act also makes changes to items falling under the Urban Agglomeration Council's authority. Arterial road system activities, for example, are now under local authority, except for the definition of management and harmonization standards, general planning of the system and certain work that remains under the urban agglomeration's responsibility.

Furthermore, several items have been removed from the list of equipment, infrastructure and activities of collective interest set out in the Appendix to the *Order in Council concerning the urban agglomeration of Montréal* (No. 1229-2005 and amendments), such as several large parks, cultural facilities, celebrations and festivals.

Montréal Urban Agglomeration Council
The urban agglomeration is responsible for services provided to all island residents. These responsibilities are exercised by the Urban Agglomeration Council. This municipal political entity and decision-making body holds the authority to adopt any by-law, to authorize any expenditure and to levy any quota share throughout the Island of Montréal.

The Urban Agglomeration Council is designed to have a simple and democratic structure. Montréal's mayor selects representatives to accompany him to the Urban Agglomeration Council. Their briefs are set by the City Council, which defines the positions to be taken by its elected officials at the Urban Agglomeration Council. The same rule applies for the mayors of the reconstituted municipalities, who are bound by the guidelines of their respective city councils.

A total of 31 elected officials sit on the Urban Agglomeration Council.

They are:

- The mayor of Montréal, who is its chair.
- 15 elected officials from Montréal's City Council, who are appointed by the mayor.
- 14 mayors of the reconstituted municipalities (L'Île-Dorval and Dorval share one representative), one of whom is appointed as vice-chair.
- An additional representative from Dollard-Des Ormeaux (because of the size of its population), who is appointed by the mayor of this municipality.

The representation of each of the 16 related municipalities within this council is proportional to its demographic weight. Montréal has a weight of 87% and the 15 reconstituted municipalities have 13%.

City Council and Borough Councils
Furthermore, in accordance with the various areas of activity defined in the *Charter of Ville de Montréal*, the city's local powers are distributed among the City Council and the borough councils.

The Montréal City Council assumes its responsibility toward local powers within the city, which now has 19 boroughs. The borough councils are responsible for delivering local services.

The City Council consists of the mayor of Montréal, also ex-officio mayor of the Ville-Marie borough, plus 64 city councillors, 18 of whom are borough mayors. A borough council has at least five members. These members include the borough mayor, one or more city councillors and any borough councillors. There are 19 boroughs, with 46 councillors, who also sit on the City Council, and 38 borough councillors.

The cost of local service provided on the Montréal territory is covered using revenue from local property taxes, which are paid by all Montréal taxpayers. In some cases, taxpayers in a given borough may, according to decisions by their borough council, be required to pay a borough tax for local services.

Summary of Powers Falling under the Urban Agglomeration Council or the City and Borough Councils

Urban Agglomeration Powers

- Property assessment
- Police, fire and public safety
- First responder services, except in Côte-Saint-Luc
- 9-1-1 emergency centre
- Implementation of fire coverage and public safety plans
- Municipal court
- Social housing
- Assistance to the homeless
- Prevention and fight against substance abuse and prostitution
- Waste disposal, recycling and management of hazardous material
- Development and adoption of a solid waste management plan
- Municipal waterways
- Water supply and purification, except local mains
- Public transit
- Definition of minimum standards for the management and general planning of the arterial road system and work on specified roadways
- Economic and tourist promotion outside the limits of a related municipality
- Tourist information services
- Industrial parks
- *Conseil des arts de Montréal* (arts council)
- Equipment, infrastructure and activities of collective interest designated in the *Order in Council concerning the urban agglomeration of Montréal* (No. 1229-2005 and amendments)
- Contribution to financing the operating deficit of the Space for Life
- Any other responsibility once within the jurisdiction of the former urban community, now under the authority of the city

Local Powers

- Urban planning
- Building, public nuisance and public health regulations
- Housing
- Fire protection and public safety
- Solid waste collection and transportation
- Local and arterial road management
- Local water mains and sewer lines
- Local sports and recreational facilities
- Local libraries
- Local parks
- Local economic, community, cultural and social development
- Heritage
- *Commission des services électriques* (electrical services commission)
- *Sociétés de développement commercial* (merchants' associations)
- Industrial parks listed in by-law RCG 06 020
- Organization of elections

Consolidated Financial Information

2016

Management responsibility for financial reporting

The consolidated financial statements in this report are prepared in accordance with Canadian public sector accounting standards, as described in Note 2 to the consolidated financial statements.

The consolidated financial statements and all other information in this annual financial report are the responsibility of management. Management has also ensured consistency between the consolidated financial statements and all other information disclosed in the annual financial report.

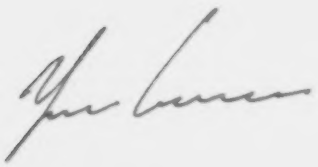
To assess certain facts and operations, management has made estimates based on its best judgment of the situation and by taking into account materiality.

Management is responsible for maintaining appropriate internal control and accounting systems that provide reasonable assurance that the city's policies are adopted, that its operations are carried out in accordance with the appropriate laws and authorizations, that its assets are adequately safeguarded, and that the consolidated financial statements are based on reliable accounting records.

The city's powers and responsibilities are exercised either by the Urban Agglomeration Council, the City Council, or by the borough councils.

The Audit Committee is made up of seven members, two of which are members of the council representing the reconstituted municipalities and two are external members. Its responsibilities include overseeing financial reporting and presentation procedures, which includes reviewing the consolidated financial statement and other information contained in this annual financial report.

The Auditor General of Ville de Montréal and the independent auditor, Deloitte LLP, have audited the consolidated financial statements and presented the following reports.



Yves Courchesne
Treasurer of Ville de Montréal

Alain Marcoux
Acting City Manager

April 3, 2017

Vérificateur général
de la Ville de Montréal

INDEPENDENT AUDITOR'S REPORT

To the Mayor,
The Chairman and the Members of the Executive Committee,
The Members of the Council of Ville de Montréal,
The Members of the Montréal Agglomeration Council

I have audited the accompanying consolidated financial statements of Ville de Montréal, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ville de Montréal as at December 31, 2016 and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Observations

Without modifying my opinion, I draw attention to Note 14 to the consolidated financial statements, which states that the City includes certain financial information prepared for tax purposes in its consolidated financial statements. Management has decided to present this information, which is not required under Canadian public sector accounting standards, as it deems it necessary for a more in-depth and relevant analysis of the activities carried out.

Auditor General of the Ville de Montréal,

Michèle Galipeau, CPA auditor, CA

Michèle Galipeau, CPA auditor, CA
Montréal
April 3, 2017

Deloitte.

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Independent auditor's report

To the Mayor,
the Chairman and the Members of the Executive Committee,
the Members of the Council of Ville de Montréal, and
the Members of the Montréal Agglomeration Council

We have audited the accompanying consolidated financial statements of Ville de Montréal, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As at December 31, 2016, Ville de Montréal recognized, in its consolidated statement of financial position, grants receivable from the Government of Québec regarding government transfers related to assistance programs involving the construction of capital assets and other expenses financed or to be financed by loans and for which the work has been completed. This situation is a departure from the accounting standard on government transfers set out in Canadian public sector accounting standards, which provides for the recognition of grants when they have been authorized by the government upon the exercise of its enabling authority and when the recipients have met the eligibility criteria. The impacts of the current accounting treatment on the consolidated financial statements as at December 31, 2016 and 2015 are as follows:

	Overstated	
	In thousands of dollars	
	2016	2015 Restated
Consolidated statement of financial position		
Accounts receivable - Government of Québec and its enterprises	2,491,943	2,309,193
Net debt and accumulated surplus	2,491,943	2,309,193
Consolidated statement of operations		
Revenues - Transfers	182,750	470,629
Surplus for the year	182,750	470,629
Accumulated surplus at beginning of year	2,309,193	1,838,564
Accumulated surplus at end of year	2,491,943	2,309,193

Management has not detailed the accumulated surplus amount to the extent provided in the consolidated financial statements.

In addition, Ville de Montréal did not comply with the provisions of section 1.1 of the *Act respecting subsidies for the payment in capital and interest of loans of public or municipal bodies and certain other transfers* (CQLR, chapter S-37.01), which took effect June 14, 2013 and states that only the part of the subsidy that is payable in Ville de Montréal's fiscal year and authorized by Parliament for the government's fiscal year must be recognized.

These items have led us to express a modified audit opinion on the current year's financial statements, as we did for the financial statements of the previous year.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of Ville de Montréal as at December 31, 2016 and the results of its operations, change in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Observations

Without modifying our opinion, we draw attention to Note 14 to the consolidated financial statements, which states that Ville de Montréal includes certain financial information prepared for tax purposes in its consolidated financial statements. Management has decided to present this information, which is not required under Canadian public sector accounting standards, as it deems it necessary for a more in-depth and relevant analysis of the activities carried out.

Deloitte LLP[1]

April 3, 2017

[1] CPA auditor, CA, public accountancy permit No. A116207

Consolidated Statement of Financial Position
As at December 31, 2016

(in thousands of dollars)

	Notes	2016	2015 Restated, Note 3
FINANCIAL ASSETS			
Cash and temporary investments	4	**315,352**	570,658
Investments	4	**3,474,407**	3,150,766
Accounts receivable	5	**3,663,112**	3,401,834
Assets held for sale		**13,518**	4,415
Loans	6	**29,130**	18,230
		7,495,519	7,145,903
LIABILITIES			
Temporary loans	7	**378,127**	216,836
Accounts payable, provisions and accrued liabilities	8	**1,755,046**	1,601,434
Deferred revenues	9	**211,706**	184,301
Long-term debt	10	**10,891,752**	10,562,006
Employee future benefits liability	11	**410,815**	275,735
		13,647,446	12,840,312
NET DEBT		**(6,151,927)**	(5,694,409)
NON-FINANCIAL ASSETS			
Capital assets	12	**13,149,778**	12,168,304
Assets held for sale		**62,380**	78,971
Inventories		**76,710**	79,711
Other non-financial assets	13	**422,742**	523,763
		13,711,610	12,850,749
ACCUMULATED SURPLUS	14	**7,559,683**	7,156,340
Commitments and contingencies	18		

See the accompanying notes and tables.

Consolidated Statement of Operations
Fiscal Year Ended December 31, 2016

(in thousands of dollars)

	Notes	2016	2016	2015 Restated, Note 3
		Budget	Actual	Actual
Revenues				
Taxes		3,229,118	**3,241,764**	3,156,025
Payments in lieu of taxes		247,844	**252,329**	254,545
Quota shares		405,112	**404,753**	406,084
Transfers	15	1,350,011	**1,148,161**	1,409,566
Services rendered		996,369	**991,940**	984,170
Fee collection		169,962	**222,776**	196,809
Fines and penalties		199,545	**163,733**	170,757
Interest	16	120,223	**133,705**	140,254
Other revenues		125,715	**105,719**	111,050
		6,843,899	**6,664,880**	6,829,260
Expenditures				
General administration		847,211	**759,778**	799,416
Public security		1,069,197	**1,083,256**	1,076,228
Transportation		2,199,373	**2,223,221**	2,210,358
Environmental hygiene		645,315	**653,038**	616,001
Health and welfare		143,594	**129,863**	135,555
Urban planning and development		245,786	**243,425**	226,989
Recreation and culture		664,140	**686,163**	650,299
Financing expenses		508,106	**482,793**	484,093
		6,322,722	**6,261,537**	6,198,939
Surplus for the year		521,177	**403,343**	630,321
Accumulated surplus at beginning of year				
Accumulated surplus at beginning of year, as previously reported			**7,213,320**	6,570,897
Restatement	3		**(56,980)**	(44,878)
Accumulated surplus at beginning of year, as restated			**7,156,340**	6,526,019
Accumulated surplus at end of year			**7,559,683**	7,156,340

See the accompanying notes and tables.

Consolidated Statement of the Change in Net Debt
Fiscal Year Ended December 31, 2016

(in thousands of dollars)

	Notes	2016 Budget	2016 Actual	2015 Restated, Note 3 Actual
Surplus for the year		521,177	**403,343**	630,321
Change in capital assets				
Acquisition	12	(2,271,062)	**(1,850,642)**	(1,797,878)
Proceeds from sale		3,325	**5,534**	11,446
Amortization	12	868,551	**865,971**	833,716
Gain on sale		(3,325)	**(2,337)**	(9,494)
		(1,402,511)	**(981,474)**	(962,210)
Change in assets held for sale		4,053	**16,591**	(17,258)
Change in inventories			**3,001**	(7,274)
Change in other non-financial assets			**101,021**	(85,734)
		4,053	**120,613**	(110,266)
Change in net debt		(877,281)	**(457,618)**	(442,155)
Net debt at beginning of year				
Net debt at beginning of year, as previously reported		(5,637,429)	**(5,637,429)**	(5,207,376)
Restatement	3		**(56,980)**	(44,878)
Net debt at beginning of year, as restated		(5,637,429)	**(5,694,409)**	(5,252,254)
Net debt at end of year		(6,514,710)	**(6,151,927)**	(5,694,409)

See the accompanying notes and tables.

Consolidated Statement of Cash Flows
Fiscal Year Ended December 31, 2016

(in thousands of dollars)

	Note	2016	2015 Restated, Note 3
Operating activities			
Surplus for the year		**403,343**	630,321
Items not affecting cash			
Amortization of capital assets	12	**865,971**	833,716
Gain on sale of capital assets		**(2,337)**	(9,494)
		1,266,977	1,454,543
Change in non-cash items			
Accounts receivable		**(261,278)**	(475,274)
Assets held for sale		**7,488**	(20,081)
Loans		**(10,900)**	9,444
Accounts payables, provisions, and accrued liabilities (1)		**62,954**	79,901
Deferred revenues		**27,405**	24,209
Employee future benefits liability		**135,080**	253,019
Inventories		**3,001**	(7,274)
Other non-financial assets		**101,021**	(85,734)
		1,331,748	1,232,753
Capital investing activities			
Acquisition of capital assets (1)		**(1,759,984)**	(1,340,905)
Proceeds from sale of capital assets		**5,534**	11,446
		(1,754,450)	(1,329,459)
Other investing activities			
Acquisition of investments		**(534,388)**	(473,937)
Proceeds from sale of investments		**210,747**	265,017
		(323,641)	(208,920)
Financing activities			
Proceeds from long-term debt		**935,933**	1,298,169
Repayment of long-term debt, net of refinancings		**(504,358)**	(467,306)
Bond redemption by refinancing		**(101,829)**	(240,064)
Net change in temporary loans		**161,291**	(24,465)
		491,037	566,334
(Decrease) Increase in cash and cash equivalents		**(255,306)**	260,708
Cash and cash equivalents at beginning of year		**570,658**	309,950
Cash and cash equivalents at end of year		**315,352**	570,658

1 The cost of unpaid capital assets, amounting to $372.9 million ($282.2 million in 2015), is subtracted from acquisitions since there is no impact on cash flows.

Cash and cash equivalents consist of cash and temporary investments of 90 days or less from the acquisition date.

See the accompanying notes and tables.

Segment Disclosures
As at December 31, 2016

SCHEDULE 1 – CONSOLIDATED FINANCIAL POSITION BY ORGANIZATION *(in thousands of dollars)*

	2016				2015 Restated, Note 3
	Municipal administration	Controlled organizations	Eliminations	Total	Total
FINANCIAL ASSETS					
Cash and temporary investments	260,013	55,339		**315,352**	570,658
Investments	2,805,903	668,504		**3,474,407**	3,150,766
Accounts receivable	2,464,660	1,838,059	(639,607)	**3,663,112**	3,401,834
Assets held for sale	1,592	11,926		**13,518**	4,415
Loans	32,486	989	(4,345)	**29,130**	18,230
	5,564,654	2,574,817	(643,952)	**7,495,519**	7,145,903
LIABILITIES					
Temporary loans		378,127		**378,127**	216,836
Accounts payable, provisions and accrued liabilities	1,521,234	308,978	(75,166)	**1,755,046**	1,601,434
Deferred revenues	158,781	69,002	(16,077)	**211,706**	184,301
Long-term debt	8,338,522	3,121,939	(568,709)	**10,891,752**	10,562,006
Employee future benefits liability	268,226	142,589		**410,815**	275,735
	10,286,763	4,020,635	(659,952)	**13,647,446**	12,840,312
NET DEBT	(4,722,109)	(1,445,818)	16,000	**(6,151,927)**	(5,694,409)
NON-FINANCIAL ASSETS					
Capital assets	9,141,303	4,008,475		**13,149,778**	12,168,304
Assets held for sale	47,575	14,805		**62,380**	78,971
Inventories	36,729	39,981		**76,710**	79,711
Other non-financial assets	55,371	383,371	(16,000)	**422,742**	523,763
	9,280,978	4,446,632	(16,000)	**13,711,610**	12,850,749
ACCUMULATED SURPLUS					
Unrestricted operating surplus (deficit)	201,435	(5,051)		**196,384**	203,361
Restricted operating surplus	331,187	72,881		**404,068**	335,333
Financial reserves and reserved funds	176,472	13,057		**189,529**	247,973
Deficit from capital asset activities	(28,242)	(162,607)	(32,197)	**(223,046)**	(55,906)
Recognized expenditures to be taxed or funded	(1,110,256)	(142,275)	33,340	**(1,219,191)**	(948,821)
Net investment in capital assets	4,988,273	3,224,809	(1,143)	**8,211,939**	7,374,400
	4,558,869	3,000,814		**7,559,683**	7,156,340

See the accompanying notes and tables.

SCHEDULE 2 – CONSOLIDATED ITEMIZED OPERATIONS BY ORGANIZATION *(in thousands of dollars)*

	2016				2015 Restated, Note 3
	Municipal administration	Controlled organizations	Eliminations	Total	Total
Revenues					
Operating					
Taxes	3,262,399		(20,635)	**3,241,764**	3,156,025
Payments in lieu of taxes	252,329			**252,329**	254,545
Quota shares	404,753	431,201	(431,201)	**404,753**	406,084
Transfers	244,535	236,923		**481,458**	476,575
Services rendered	314,038	767,831	(89,929)	**991,940**	984,170
Fee collection	222,776			**222,776**	196,809
Fines and penalties	163,733			**163,733**	170,757
Interest	138,050	14,571	(18,916)	**133,705**	140,254
Other revenues	16,267	127,178	(45,467)	**97,978**	99,451
	5,018,880	1,577,704	(606,148)	**5,990,436**	5,884,670
Capital Assets					
Quota shares		14,182	(14,182)		
Transfers	236,427	430,276		**666,703**	932,991
Developers' contributions	250			**250**	6,742
Other revenues	7,491			**7,491**	4,857
	244,168	444,458	(14,182)	**674,444**	944,590
	5,263,048	2,022,162	(620,330)	**6,664,880**	6,829,260
Expenditures					
General administration	768,806		(9,028)	**759,778**	799,416
Public security	1,083,256			**1,083,256**	1,076,228
Transportation	1,146,697	1,620,648	(544,124)	**2,223,221**	2,210,358
Environmental hygiene	653,869		(831)	**653,038**	616,001
Health and welfare	89,508	51,151	(10,796)	**129,863**	135,555
Urban planning and development	241,540	9,122	(7,237)	**243,425**	226,989
Recreation and culture	658,351	57,210	(29,398)	**686,163**	650,299
Financing expenses	382,947	118,762	(18,916)	**482,793**	484,093
	5,024,974	1,856,893	(620,330)	**6,261,537**	6,198,939
Surplus for the year	238,074	165,269		**403,343**	630,321

See the accompanying notes and tables.

SCHEDULE 3 – RECONCILIATION OF THE CONSOLIDATED OPERATING SURPLUS FOR TAX PURPOSES BY ORGANIZATION

(in thousands of dollars)

		2016				2015 Restated, Note 3
	Consolidated budget	Municipal administration	Controlled organizations	Eliminations	Total	Total
Surplus for the year	521,177	238,074	165,269		**403,343**	630,321
Less: revenues from capital asset activities	(852,634)	(244,168)	(444,458)	14,182	**(674,444)**	(944,590)
Operating deficit before reconciliation for tax purposes for the year	(331,457)	(6,094)	(279,189)	14,182	**(271,101)**	(314,269)
Reconciliation for tax purposes						
Capital assets						
Proceeds from sale	3,325	5,484	50		**5,534**	11,446
Amortization	868,551	632,839	233,132		**865,971**	833,716
(Gain) Losses on sale	(3,325)	(2,381)	44		**(2,337)**	(9,494)
	868,551	635,942	233,226		**869,168**	835,668
Financing						
Repayment of long-term debt	(544,088)	(449,312)	(75,833)	(961)	**(526,106)**	(470,242)
Allocations (Note 14)						
Capital asset activities	(6,264)	(8,624)	(28,499)	(300)	**(37,423)**	(26,570)
Restricted operating surplus	35,288	68,455			**68,455**	45,621
Financial reserves and reserved funds	(201,971)	(231,921)			**(231,921)**	(104,588)
Recognized expenditures to be taxed or funded	184,166	130,674	151,416	(12,921)	**269,169**	192,955
	11,219	(41,416)	122,917	(13,221)	**68,280**	107,418
Operating surplus for tax purposes for the year	4,225	139,120	1,121		**140,241**	158,575

See the accompanying notes and tables.

SCHEDULE 4 – RECONCILIATION OF CONSOLIDATED (DEFICIT) SURPLUS OF CAPITAL ASSET ACTIVITIES FOR TAX PURPOSES BY ORGANIZATION

(in thousands of dollars)

		2016				2015 Restated, Note 3
	Consolidated budget	Municipal administration	Controlled organizations	Eliminations	Total	Total
Revenues from capital asset activities	852,634	244,168	444,458	(14,182)	**674,444**	944,590
Reconciliation for tax purposes						
Capital assets						
Acquisition						
General administration	(111,400)	(62,538)			**(62,538)**	(50,541)
Public security	(60,700)	(49,351)			**(49,351)**	(39,890)
Transportation	(1,121,303)	(394,505)	(648,062)		**(1,042,567)**	(1,172,296)
Environmental hygiene	(390,000)	(385,647)			**(385,647)**	(268,854)
Health and welfare	(73,159)	(29)	(38,603)		**(38,632)**	(490)
Urban planning and development	(153,500)	(43,187)	(157)		**(43,344)**	(44,157)
Recreation and culture	(361,000)	(228,563)			**(228,563)**	(221,650)
	(2,271,062)	(1,163,820)	(686,822)		**(1,850,642)**	(1,797,878)
Financing						
Long-term financing of capital asset activities	1,120,264	559,210	110,831		**670,041**	742,337
Allocations						
Operating activities	6,264	8,624	28,499	300	**37,423**	26,570
Restricted operating surplus		10,307			**10,307**	14,434
Financial reserves and reserved funds	291,900	292,547			**292,547**	211,212
	298,164	311,478	28,499	300	**340,277**	252,216
(Deficit) Surplus from capital asset activities for tax purposes for the year		(48,964)	(103,034)	(13,882)	**(165,880)**	141,265

See the accompanying notes and tables.

Segment Disclosures
Fiscal Year Ended December 31, 2016

SCHEDULE 5 – CONSOLIDATED EXPENDITURES BY ITEM AND BY ORGANIZATION *(in thousands of dollars)*

	2016				2015
	Municipal administration	**Controlled organizations**	**Eliminations**	**Total**	**Total**
Remuneration					
Elected officials	10,054	171		**10,225**	9,986
Employees	1,679,912	690,012	(7,134)	**2,362,790**	2,315,278
Employer contributions					
Elected officials	4,175	29		**4,204**	4,133
Employees	673,550	364,823		**1,038,373**	1,121,189
Transportation and communication	42,047	159,010		**201,057**	196,142
Professionnal, technical and other services					
Professional fees	47,880	21,270		**69,150**	65,597
Purchase of technical services	269,072	42,237	(15,907)	**295,402**	289,122
Other	4,124	17,957		**22,081**	18,234
Leasing, maintenance and repair					
Leasing	87,736	20,088	(19,553)	**88,271**	86,389
Maintenance and repair	70,412	35,321	(33)	**105,700**	96,910
Durable goods					
Construction	18,940			**18,940**	13,446
Other durable goods	955			**955**	413
Non-durable goods					
Delivery of public services	83,368	15,428	(4,109)	**94,687**	95,317
Other non-durable goods	151,472	65,324	(6,415)	**210,381**	211,627
Financing expenses					
Interest and other charges on long-term debt borne by:					
The municipality	290,483	39,644		**330,127**	321,038
Government of Québec and its enterprises	51,062	74,934		**125,996**	131,581
Other third parties	40,173	1,737	(18,916)	**22,994**	25,865
Other financing expenses	1,229	2,447		**3,676**	5,609
Contributions to organizations					
Municipal organizations					
Société de transport de Montréal	445,383		(445,383)		
Montréal Metropolitan Community	37,874			**37,874**	29,399
Other	42,692		(27,783)	**14,909**	6,176
Government organizations					
Agence métropolitaine de transport	58,707			**58,707**	63,295
Other	14,883			**14,883**	12,010
Other organizations	170,118	13,160	(15,684)	**167,594**	144,492
Amortization of capital assets	632,839	233,132		**865,971**	833,716
Loss on sale of capital assets		44		**44**	
Other items					
Doubtful accounts or bad debts	1,813	275		**2,088**	22,428
Other	94,021	59,850	(59,413)	**94,458**	79,547
	5,024,974	1,856,893	(620,330)	**6,261,537**	6,198,939

1. GOVERNING STATUTE

Ville de Montréal (the City) is a municipal corporation incorporated on January 1, 2002 under the *Charter of Ville de Montréal* (CQLR, chapter C-11.4).

On January 1, 2006, following the results of a referendum held in 2004 under *An Act regarding public consultation on the territorial reorganization of certain municipalities* (S.Q. 2003, chapter 14), the former municipalities of Baie-d'Urfé, Beaconsfield, Côte-Saint-Luc, Dollard-Des-Ormeaux, Dorval, Hampstead, Kirkland, L'Île-Dorval, Montréal-Est, Montréal-Ouest, Mont-Royal, Pointe-Claire, Sainte-Anne-de-Bellevue, Village de Senneville and Westmount were reconstituted. As a result, Ville de Montréal now consists of 19 remaining boroughs that comprise 87% of the total population of the island of Montréal. In accordance with the provisions of this Act, all municipalities located on the island of Montréal, however, remain related to one another and form an agglomeration consistent with the territory of Ville de Montréal as it existed on December 31, 2005.

An Act respecting the exercise of certain municipal powers in certain urban agglomerations (CQLR, chapter E-20.001), completed by the *Montréal Agglomeration Order* (Order-in-Council No. 1229-2005), and its amendments lists and defines the powers of the urban agglomeration. Under this Act, Ville de Montréal is the central municipality in charge of exercising, in addition to its local powers, the powers of the agglomeration.

The agglomeration is headed by the City's Urban Agglomeration Council, a political and decision-making body vested with decision-making powers related to urban agglomeration responsibilities. The Urban Agglomeration Council is a central municipal legislative body, separate from city council under Section 14 of the *Charter of Ville de Montréal*. It is made up of representatives of each related municipality, with the number of representatives of each municipality being determined proportionately to the relative size of their populations.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards. They contain certain financial information for tax purposes presented in Note 14.

The term "City" as used in the segment disclosures, accompanying notes and tables, refers to the entity made up of Ville de Montréal and the organizations under its control. The term "municipal administration" refers to Ville de Montréal excluding the organizations under its control.

The significant accounting policies are as follows:

a) Principles of consolidation

The consolidated financial statements include the accounts of the City and of the organizations under its control. These organizations include the Société de transport de Montréal (the STM), the Société d'habitation et de développement de Montréal, the Technoparc Montréal, the Société du parc Jean-Drapeau, the Conseil des arts de Montréal, the Conseil interculturel de Montréal, the Office de consultation publique de Montréal, Anjou 80, the Société en commandite Stationnement de Montréal, the Bureau du taxi de Montréal and BIXI Montréal. Transactions concluded between these organizations and reciprocal balances are eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Accounting method

Transactions are recorded in the City's books using the accrual basis of accounting. Under this method, assets, liabilities, revenues and expenditures are recognized in the year in which the events and transactions occur.

c) Use of estimates

Preparation of the consolidated financial statements in accordance with Canadian public sector accounting standards requires management to make assumptions and estimates that affect the reported amounts of revenues, expenditures, assets, liabilities, and commitments and contingencies. Actual results could differ from these estimates.

The main estimates made relate to the following items: the allowance for doubtful accounts on accounts receivable, the net realizable values of assets held for sale, the estimated useful lives of capital assets, provisions for salaries and benefits, liabilities for solid waste landfill closure and post-closure costs, environmental liability, contested valuations and legal claims and actuarial assumptions for establishing employee future benefits liability and expenses.

d) Investments

Temporary investments are recorded at the lower of cost and fair value.

Other investments are recorded at cost and written down when there is a permanent decline in value. Discounts or premiums on investments are amortized on a straight-line basis until maturity. Amounts included in the sinking fund are restricted to the repayment of long-term loans that do not require annual repayment.

e) Assets held for sale

Assets held for sale are recorded at the lower of cost and net realizable value. The portion of these assets held for selling purposes for the subsequent year is presented in financial assets.

f) Loans

Loans are presented at the lower of cost and net recoverable value. Loans with significant concessionary terms are presented at face value discounted by the amount of the grant portion. The discount is amortized over the term of the loan using the effective rate interest method.

g) Provision for contested valuations

The provision for contested valuations is an estimate of refunds (both principal and interest) that may result from court decisions on contested real estate valuations or rental values and on contested classifications under the *Act respecting Municipal Taxation*.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Deferred revenues

Premiums on the issuance of securities are amortized on a straight-line basis over the term of the related loans. The amounts collected for the acquisition and development of parks and playing fields are recognized in the Consolidated Statement of Operations when the land intended for that purpose is acquired or when the related development work is carried out.

i) Non-financial assets

The City records capital assets and certain assets as non-financial assets since they can be used to provide services in subsequent years. These assets do not usually provide resources assigned to the settlement of its liabilities unless they are sold.

j) Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over the following estimated useful lives:

Infrastructures	10 to 40 years
Metro system	20 to 100 years
Metro cars	40 to 60 years
Buildings	20 to 40 years
Leasehold improvements	lease term
Vehicles	5 to 60 years
Office furniture and equipement	5 to 10 years
Machinery, tools and equipment	5 to 25 years
Other	20 to 25 years

Capital assets in the process of completion are only amortized when they can be used in the production of goods or in the provision of services.

Land used as road foundations, otherwise acquired by a purchase contract, is recorded at a nominal value of $1. Other land is recorded at cost. When the cost cannot be determined, it is estimated.

k) Inventories

Inventories are recorded at lower of cost, which is determined using the average cost method, and replacement value. Obsolete inventory is written off.

l) Other non-financial assets

Securities issuance costs are amortized on a straight-line basis over the terms of the related borrowings.

m) Tax revenues and payments in lieu of taxes

Except for revenues from the tax on registered vehicles, tax revenues and compensations in lieu of taxes are recognized in the Consolidated Statement of Operations in the year in which they are due. Revenues from the tax on registered vehicles are recognized over a 12-month period from the date they are received.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Quota shares

The expenditures incurred by the City in exercising urban agglomeration responsibilities are invoiced to the municipalities related to the agglomeration. Revenues from this invoicing are recorded as quota shares in the Consolidated Statement of Operations.

o) Transfer revenues

Transfer revenues are recognized in the Consolidated Statement of Operations when the related operating and capital expenditures are recorded, to the extent that they have been authorized by the transferor and the eligibility criteria have been met, unless the transfer stipulations give rise to an obligation that meets the definition of a liability. In such cases, the transfer is recorded under Deferred revenues and is amortized as the stipulations are respected.

Certain aspects of standard PS 3410, *Government Transfers*, in particular issues related to the notion of authorization of transfers, are currently the subject of various accounting interpretations, specifically in the case of multi-year transfers paid by the Government of Québec. These interpretations have led the independent auditors to issue differing opinions on the City's consolidated financial statements since 2013.

Faced with these differing interpretations within the City and other entities applying the standard PS 3410, *Government Transfers*, the Public Sector Accounting Board (PSAB) issued a Request for Information in November 2014 to gather stakeholders' experience in the implementation and application of the standard. During the year, the PSAB reviewed the implementation of this standard and concluded that Section PS 3410, as it is currently written, meets the original public interest objectives and increases consistency in accounting for government transfers. The standard for transfer payments will therefore remain unchanged.

In light of the above, the City is maintaining its interpretation of the concept of authorization and the method used to recognize transfer revenues.

p) Services rendered

Revenues related to services rendered are recognized in the Consolidated Statement of Operations when the services are rendered and give rise to a claim. Revenues generated from passenger transportation constitute a significant portion of recognized services rendered. These revenues are recognized in the Consolidated Statement of Operations when the transit fares are used by passengers. In the case of weekly or monthly passes, revenues are recognized in the period when these passes are valid.

q) Revenues from fee collection, fines and penalties, interest and other revenues

Revenues from fee collection, fines and penalties, interest and other revenues are recognized in the Consolidated Statement of Operations in the period in which the transactions or events occurred that gave rise to the revenues, amounts can be reasonably estimated, and collection is reasonably assured. Interest income is recognized when earned. Revenues from fee collection include property transfer fees, which are recognized on the date on which the transfer was recorded by the rights registrar. Any fines and penalties pertaining to the year in question are recognized when infractions are issued.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Employee future benefits liability and expenses

- Defined benefit plans

Plan liability reflect the year-end difference existing between the value of the accrued benefit obligations and the value of plan assets, net of unamortized actuarial gains and losses and the valuation allowance. The actuarial valuation of these assets or liabilities is determined using the projected benefit method prorated on years of service with salary projection. It is also based on actuarial assumptions that include management's best estimated on, among other things, discount rates, the expected rate of return on plan assets, and the rate of compensation increase and healthcare costs.

Plan assets are valued using a market-related value, determined over a period not exceeding five years.

Past service costs related to plan amendments are recognized in the year during which the amendments are made.

Actuarial gains and losses resulting from the difference between the actual and the expected rate of return on plan assets or resulting from changes in actuarial assumptions are deferred and amortized over the average remaining service life of active employees. As at December 31, 2016, this weighted average remaining service life is 13 years.

The expense for these plans is determined on an accrual basis to attribute the benefit cost to the periods in which the related services are rendered by participating employees. Past service costs, amortization of actuarial gains and losses, interest expense resulting from the difference between the interest cost on the obligation and the expected rate of return on plan assets, and the change in valuation allowance are the other components of the defined benefit plan expense.

- Defined contribution plans and pension plan for elected officials

The pension expense for these plans is recognized when contributions are due.

s) Liabilities for solid waste landfill closure and post-closure costs

The City records a liability for closure and post-closure costs of solid waste landfills that it has operated. The liability provision is an estimate of the discounted costs required to provide final cover for closed landfills and to monitor and maintain the biogas and leachate collection and treatment systems until 2062. These costs are presented net of user fees from biogas processing.

The assumptions used to calculate these costs are periodically reviewed to account for advancements made in solid waste landfill management practices.

t) Environmental liability

The City records an environmental liability for remediation of contaminated sites when the following criteria are satisfied: an environmental standard exists; the contamination exceeds this standard; the City is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amounts based on the discounted cash flows presented, if any, on a net basis in transfer revenues, can be made.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Foreign currency translation

Revenues and expenditures related to foreign currency transactions are translated into Canadian dollars using the exchange rates in effect on the transaction date.

Monetary liabilities denominated in foreign currencies are translated using the exchange rate in effect on the reporting date of the Consolidated Statement of Financial Position, and foreign exchange gains or losses are immediately charged to the Consolidated Statement of Operations if they are cash items.

Loan repayments with respect to loans denominated in foreign currencies that are not subject to a hedge against currency exposure, are translated using the exchange rates in effect on the transaction dates. For these loans, gains and losses resulting from the difference between the original conversion rate and conversion rate used on the repayment or payment date are recorded in the Consolidated Statement of Operations.

v) Derivative financial instruments

The City uses derivative financial instruments to reduce its currency and interest rate risk exposure on long-term debt and applies hedge accounting in its eligible hedging relationships in order to benefit from hedge accounting. When implemented, the foreign exchange hedging relationships must be fully documented as required under standard PS 2600, *Foreign Currency Translation*, and the City must secure efficient relationships for managing the attendant risks. Then the current hedging relationships are evaluated on an annual basis to ensure that they continue to be efficient, and it is expected that they will remain efficient. The efficiency of a hedging relationship is generally evaluated by analyzing whether the main terms of the swap match those of the debt covered. The City does not use financial instruments for trading or speculative purposes.

The City uses cross-currency swaps to manage the risk associated with loans denominated in foreign currencies. The value of currency swaps is determined by applying the change between the foreign exchange rates stipulated in the swap contracts and exchange rates in effect on the reporting date of the Consolidated Statement of Financial Position to the notional amounts of the swaps. Those that constitute financial assets are deducted from long-term debt, and those that constitute financial liabilities are added to long-term debt. Gains and losses on these derivatives are recognized in the same period as the exchange gains and losses related to the corresponding debt and are charged against the latter.

Furthermore, the City uses interest rate swaps to manage interest rate risk related to its debt. These contracts result in interest exchanges that are recorded as an adjustment to financing expenses for the year. The amounts payable to counterparties or receivable from counterparties are recorded as an adjustment to the accrued interest on the corresponding debt; otherwise, the value of the interest rate swap contracts is not recorded in the Consolidated Statement of Financial Position.

w) Urban agglomeration responsibilities

Under *An Act respecting the exercise of certain municipal powers in certain urban agglomerations* (CQLR, chapter E-20.001), the City, in addition to its local powers, exercises agglomeration powers over the entire territory of related municipalities. The main agglomeration powers cover the following areas: property assessments; public transit; certain functions related to the thoroughfares forming the arterial road system; water supply and water purification; disposal and reclamation of residual materials; municipal watercourses; police, emergency preparedness, fire protection and first responder services (except for the territory of the municipality of Côte-Saint-Luc); the municipal court; social housing and assistance to the homeless; and certain components of economic development. Tables 1 and 2 provide a breakdown of the operating activities and capital asset surplus for tax purposes according to both local and agglomeration responsibilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Sectorization and presentation of operations

The City's financial position, operations, operating and capital asset surplus (deficit) for the year for tax purposes, and by-item expenditures are broken down between the following sectors: municipal administration and controlled organizations.

Expenditures are broken down as follows:

- the "General administration" item refers to all municipal administration and management activity. Expenditures relate primarily to council activities, applications of the law, and financial, administrative and staff management;
- the "Public security" item refers to all activities involving the protection of people and property. It includes all expenditures related to control, prevention and emergency measures regarding emergency preparedness;
- the "Transportation" item refers to all activities related to planning, organizing and maintaining road systems and to the transportation of people and goods;
- the "Environmental hygiene" item refers to all expenditures related to water, sewers, waste removal, and environmental protection;
- the "Health and welfare" item refers to all community health and welfare services;
- the "Urban planning and development" item refers to the development and maintenance of the urban development plan or city plan as well as all expenditures related to developing the City's economic development programs;
- the "Recreation and culture" item refers to all the planning, organizing, and managing of recreational and cultural programs;
- the "Financing expenses" item refers to the interest and other charges involved in financing.

y) Budget information

The Consolidated Statement of Operations and the Consolidated Statement of Change in Net Debt include a comparison with consolidated budget data, adjusted in accordance with Canadian public sector accounting standards. The consolidated budget is prepared by combining the unconsolidated budget adopted by the municipal administration with the budgets adopted by the main controlled organizations, after eliminating reciprocal transactions.

A comparison with the unconsolidated budget, adopted in December 2015 by the city council and the Urban Agglomeration Council, is also presented in the schedules and tables prepared for tax purposes.

Certain budget figures have been reclassified to reflect the current year's presentation.

3. RESTATEMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

During the fiscal year, the STM reviewed the allocation of return generated by sinking fund investments attributable to the amounts received from the Government of Québec as transfer revenues from property. An additional portion of the return on these investments was to be deducted from amounts receivable from the government. The Consolidated Statement of Financial Position as at December 31, 2015 has been adjusted to reflect a decrease in amounts receivable from the Government of Québec relating to capital asset activities in the amount of $57 million, an increase in net debt and an equivalent reduction in the accumulated surplus. The accumulated surplus as at January 1, 2015 was reduced by an amount of $44.9 million. The consolidated statements of operations and change in net debt for the year ended December 31, 2015 were restated in order to present the $12.1 million decrease in transfer revenues.

4. CASH AND INVESTMENTS
(in thousands of dollars)

	2016			2015
	Sinking Fund	Other	Total	Total
Cash and temporary investments				
Cash		217,870	217,870	223,255
Temporary investments		97,482	97,482	347,403
		315,352	315,352	570,658
Investments				
Term deposits and other securities	137,869	634,015	771,884	693,922
Bonds and debentures	2,452,609	249,914	2,702,523	2,456,844
	2,590,478	883,929	3,474,407	3,150,766

Temporary investments with a term of 90 days or less effective on the acquisition date, essentially include notes, bankers' acceptances and deposit certificates. They bear interest at rates varying between 0.50% à 0.83% (0.50% and 1.75% in 2015).

As at December 31, 2016, the fair value of investments was $3,554.3 million (3,270.9 million in 2015).

As at December 31, 2015, the Sinking Fund and other investments totalled $2,252.0 million and $898.7 million, respectively.

Bonds and debentures held by the City essentially comprise securities issued by governments and their bodies and by municipalities, school boards, CEGEPs, CLSCs and hospitals. In particular, they include City bonds and debentures totalling $512.1 million ($513.7 million in 2015).

4. CASH AND INVESTMENTS (continued)
(in thousands of dollars)

The maturities of investments held by the City are as follows:

	Term deposits and other securities	Bonds and debentures	Total	Weighted nominal interest rate
December 31, 2016				
2017	555,832	419,795	975,627	2.09%
2018	181,958	152,565	334,523	2.18%
2019	15,877	326,276	342,153	3.69%
2020	3,579	404,468	408,047	3.89%
2021	14,638	218,260	232,898	3.67%
1 to 5 years	771,884	1,521,364	2,293,248	2.83%
6 to 10 years		810,443	810,443	3.45%
11 to 15 years		151,864	151,864	3.53%
16 to 20 years		192,732	192,732	3.77%
More than 20 years		26,120	26,120	4.14%
	771,884	2,702,523	3,474,407	
December 31, 2015				
2016	693,922	203,941	897,863	1.61%
2017		424,458	424,458	3.54%
2018		161,354	161,354	3.58%
2019		322,740	322,740	3.79%
2020		426,008	426,008	3.93%
1 to 5 years	693,922	1,538,501	2,232,423	2.88%
6 to 10 years		652,542	652,542	3.71%
11 to 15 years		31,684	31,684	4.52%
16 to 20 years		209,776	209,776	3.87%
More than 20 years		24,341	24,341	4.10%
	693,922	2,456,844	3,150,766	

5. ACCOUNTS RECEIVABLE
(in thousands of dollars)

	2016	2015 Restated Note 3
Taxes	97,720	104,583
Government of Canada and its enterprises	248,114	197,461
Government of Québec and its enterprises	2,942,300	2,719,786
Municipal organizations	3,106	20,910
Services rendered and other	371,872	359,094
	3,663,112	3,401,834

An allowance for doubtful accounts of $130.7 million ($151.7 million in 2015) has been deducted from accounts receivable.

	2016	2015
Receivables amount to be used to repay long-term debt		
Government of Québec and its enterprises	2,294,939	2,403,400

The fair value of the receivables to be used to repay long-term debt is $2,447.4 million ($2,629.9 million in 2015).

5. ACCOUNTS RECEIVABLE (continued)
(in thousands of dollars)

Accounts receivable collected for the repayment of long-term debt, for which repayment terms were determined as at December 31, 2016, are as follows:

	Receipts	Weighted nominal interest rate	Refinancing
December 31, 2016			
2017	292,916	4.14%	27,477
2018	261,256	4.08%	43,089
2019	252,348	4.02%	16,646
2020	217,247	3.79%	6,304
2021	176,427	3.74%	23,622
1 to 5 years	1,200,194	3.98%	117,138
6 to 10 years	488,370	3.67%	120,355
11 to 15 years	154,049	3.20%	91,568
16 to 20 years	102,700	2.84%	16,433
	1,945,313	3.78%	345,494
December 31, 2015			
2016	280,088	4.25%	13,715
2017	271,748	4.29%	32,530
2018	241,926	4.25%	48,143
2019	233,377	4.18%	21,699
2020	198,753	3.97%	11,358
1 to 5 years	1,225,892	4.20%	127,445
6 to 10 years	528,649	4.00%	139,386
11 to 15 years	120,795	3.58%	107,995
16 to 20 years	85,784	3.27%	31,958
	1,961,120	4.07%	406,784

6. LOANS
(in thousands of dollars)

	2016	2015
Loans to PME MTL	23,482	
Loans to a municipal corporation	4,798	4,534
Balances of sales prices and other loans	850	621
Loans to contractors		13,075
	29,130	18,230

Loans to PME MTL result from the transfer of loans to contractors. These loans, which mature in 2021, do not bear interest. An amount of $4.2 million has been deducted from the value of these loans in order for them to be presented at the discounted nominal value.

Loans to a municipal housing corporation, which mature from 2020 to 2033, do not bear interest. An amount of $2.8 million was deducted from the value of these loans to present them at their discounted face value ($3.1 million in 2015).

7. TEMPORARY LOANS

The City has levers for its short-term liquidity needs that totalled $1,777.2 million as at December 31, 2016 ($1,786.5 million in 2015).

Of this amount, $1,481.7 million ($500.0 million under the limit set by the STM and $981.7 million under the *Charter of Ville de Montréal*, which authorizes up to 20% of the budgetary appropriations) may be borrowed, in whole or in part, through notes, bankers' acceptances or securities that may be negotiated with chartered banks or on the open market for short-term borrowings. As at December 31, 2016, the nominal value of commercial paper issuances was $367.1 million ($204.8 million in 2015) and the average rate on these temporary loans was 0.84% (0.83% in 2015).

The City also has demand lines of credit from different banks totalling $295.5 million. As at December 31, 2016, the amount of the credit used was $11.0 million ($12.0 million in 2015) and bears interest at an average rate of 1.08% (0.88% in 2015).

8. ACCOUNTS PAYABLE, PROVISIONS AND ACCRUED LIABILITIES (in thousands of dollars)

	2016	2015
Trade accounts payable	569,102	433,717
Salaries, source deductions and employee benefits	549,718	604,305
Accrued interest payable on long-term debt	82,251	78,502
Provisions		
Solid waste landfill closure and post-closure costs (1)	65,758	38,189
Environmental liability (2)	85,706	83,883
Contested valuations	40,942	35,349
Other	94,356	80,853
Deposits and holdbacks	196,766	162,383
Government of Québec and its enterprises	21,770	29,867
Government of Canada and its enterprises	8,214	5,855
Other	40,463	48,531
	1,755,046	1,601,434

1 The City records a liability for solid waste landfill closure and post-closure costs. During the year, after obtaining new information, the City reassessed the period required to maintain the biogas and leachate collection and treatment systems to 2062 (2028 in 2015). Estimated total undiscounted expenditures amounted to $118.2 million (51.3 million in 2015) and the discount rate used was 4% (5.7% in 2015).

2 The City also records an environmental liability in respect of the clean-up of contaminated sites. Based on information currently known, this liability comprises costs directly attributable to remediation activities. These costs include those associated with operating activities as well those related to the construction of infrastructure used solely for cleaning up the sites. Once the period for the remediation work has been determined, the City discounts the costs. As at December 31, 2016, the liability associated with the sites whose clean-up costs have been discounted amounted to $68.4 million ($66.7 million in 2015); estimated total undiscounted expenditures, which are expected to be realized until 2042, amount to $89.1 million ($99.7 million in 2015); and the discount rate used was 4% (4% in 2015). The liability related to sites for which the period of work could not be determined was $17.3 million ($17.2 million in 2015). Potential cost recoveries related to government transfers and the invoicing of partners involved in cleaning up the sites, if confirmed and meeting the recognition criteria, could reduce the liability in the future.

9. DEFERRED REVENUES
(in thousands of dollars)

	2016	2015
Premium upon issuance of securities	77,804	79,861
Transfers	51,176	28,639
Transit passes	23,354	22,456
Acquisition and development of parks and playing fields	28,720	20,557
Automobile registration taxes	16,021	15,595
Other	14,631	17,193
	211,706	184,301

10. LONG TERM DEBT
(in thousands of dollars)

	2016	2015
Bonds and notes		
In Canadian dollars (1)	10,769,407	10,427,335
In foreign currencies		370
Other long-term debt		
Obligations under capital leases	158	381
Term loans and mortgages (2)	103,161	112,575
Other	19,026	21,345
	10,891,752	10,562,006

1 Includes the long-term debt related to repaying the net pension plan obligation totalling $1,294.9 million ($1,294.9 million in 2015).

2 Mortgages in the amount of $19.0 million ($22.9 million in 2015) are guaranteed by properties with a carrying value of $34.9 million ($34.2 million in 2015).

The repayment of the long-term debt is allocated as follows:

	2016	2015
Chargeable to taxpayers		
Of the central municipality	3,505,605	3,495,154
Of the agglomeration	2,185,247	2,073,347
Accumulated amounts in the Sinking Fund	2,590,478	2,252,041
Receivables amount to be used to repay long-term debt		
Government of Québec and its enterprises	2,294,939	2,403,400
Amount recoverable through user fees	315,483	338,064
	10,891,752	10,562,006

The City uses currency and interest-rate swap agreements for loans totalling $242.2 million ($244.1 million in 2015). The financial liabilities associated with these swaps are included in the long-term debt amount.

Considering the existence of these swaps, all of the loans contracted by the City bear interest at a fixed rate. As at December 31, 2016, all loans in foreign currencies are hedged (as at December 31, 2015, loans not subject to hedging total $0.3 million and the related exchange gain totals $0.5 million).

Estimated payments on long-term debt are as follows:

	2016			2015		
Maturity	Canadian dollars (1) maturity	Refinancing	Net maturity	Canadian dollars (1) maturity	Refinancing	Net maturity
2016				594,744	134,354	460,390
2017	1,069,346	163,902	905,444	1,059,409	163,909	895,500
2018	1,008,131	307,213	700,918	983,560	307,204	676,356
2019	1,194,750	242,732	952,018	1,170,311	242,773	927,538
2020	486,576	57,575	429,001	463,764	88,145	375,619
2021	864,313	297,167	567,146			
1 to 5 years	4,623,116	1,068,589	3,554,527	4,271,788	936,385	3,335,403
6 to 10 years	3,807,684	872,422	2,935,262	3,430,882	835,699	2,595,183
11 to 15 years	299,439		299,439	714,562	8,172	706,390
16 to 20 years	1,107,783	93,321	1,014,462	1,090,674	88,322	1,002,352
2043	934,556		934,556	934,556		934,556
2045	119,174		119,174	119,174		119,174
Perpetuity				370		370
TOTAL	10,891,752	2,034,332	8,857,420	10,562,006	1,868,578	8,693,428

1 Including loans contracted in foreign currencies that are subject to hedging.

10. LONG TERM DEBT (continued)
(in thousands of dollars)

Interest rates

The interest rates shown in the table take into account the nominal interest rate and impact of interest rate swaps.

	2016	2015
Maturity	**Weighted average**	**Weighted average**
1 to 5 years	4.36%	4.39%
6 to 10 years	3.73%	4.10%
11 to 15 years	3.95%	4.55%
16 to 20 years	4.16%	4.15%
2043	6.00%	6.00%
2045	6.00%	6.00%
Perpetuity		3.00%
Weighted average	4.27%	4.44%

Fair value

The fair value of the debt was $12,069.7 million ($11,935.3 million in 2015). Fair value includes the net financial liabilities associated with foreign currency and interest-rate swaps of $36.4 million ($31.9 million in 2015).

11. EMPLOYEE FUTURE BENEFITS LIABILITY
(in thousands of dollars)

	2016	2015
Defined benefit pension plans	143,720	14,175
Other plans	267,095	261,560
Employee future benefits liability	410,815	275,735

Expenses for the defined benefit plans totalled $649.7 million ($748.9 million in 2015). Expenses for the defined contribution plans and the pension plans of elected officials totalled $1.1 million ($0.9 million in 2015) and $2.5 million ($2.4 million in 2015).

11. EMPLOYEE FUTURE BENEFITS LIABILITY (continued)
(in thousands of dollars)

Defined benefit plans

a) Description of plans

The City offers various defined benefit pension plans to most of its employees. Under these plans, benefits paid to employees are based on the number of years of service and the average salary for the highest paid years. The City's contributions are determined according to various actuarial methods.

Other retirement benefits, including life insurance and insurance coverage for medical and dental costs, are also provided to certain employees. Certain post-employment benefits are also provided and include, in particular, income replacement benefits, supplemental unemployment benefits, maintenance of coverage during periods of temporary absence and certain termination allowances. These plans are not funded.

The most recent actuarial valuation were performed from December 31, 2013 to December 31, 2015.

b) Reconciliation of the funded status of the benefit plans with the amounts recorded in the Consolidated Statement of Financial Position

	2016		2015	
	Pension plans	Other plans	Pension plans	Other plans
Actuarial value of plan assets	17,922,156		16,623,283	
Accrued benefit obligation	(18,254,929)	(273,305)	(17,716,201)	(265,321)
Capitalization deficit	(332,773)	(273,305)	(1,092,918)	(265,321)
Unamortized actuarial losses	548,999	6,210	1,241,985	3,761
Accrued benefit asset (liability)	216,226	(267,095)	149,067	(261,560)
Valuation allowance	(359,946)		(163,242)	
Employee future benefits liability	(143,720)	(267,095)	(14,175)	(261,560)

c) Plans in which the accrued benefit obligation exceeds the plan assets

	2016		2015	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation	(9,024,981)	(273,305)	(8,919,850)	(265,321)
Actuarial value of plan assets	8,234,467		7,660,917	
Capitalization deficit	(790,514)	(273,305)	(1,258,933)	(265,321)

11. EMPLOYEE FUTURE BENEFITS LIABILITY (continued)
(in thousands of dollars)

d) Actuarial value of plan assets

	2016		2015	
	Pension plans	Other plans	Pension plans	Other plans
Balance at beginning	16,623,283		15,296,520	
Expected return on plan assets	1,007,988		919,224	
Gain during the year on the expected return on plan assets	600,575		707,694	
Actual return on plan assets	1,608,563		1,626,918	
Employer contributions	504,551	10,024	484,371	11,522
Employee contributions	176,092		144,302	
Benefits paid	(990,333)	(10,024)	(927,828)	(11,522)
Balance at end	17,922,156		16,623,283	
Fair value of plan assets (1)	18,270,472		17,325,812	

[1] The fair value of assets includes the bonds issued directly by the City to its pension plans, reported at a cost of $303.7 million ($303.7 million in 2015).

11. EMPLOYEE FUTURE BENEFITS LIABILITY (continued)
(in thousands of dollars)

e) Accrued benefit obligation

	2016		2015	
	Pension plans (1)	Other plans	Pension plans	Other plans
Balance at beginning	17,716,201	265,321	16,861,265	276,486
Current service cost	422,145	8,554	411,054	10,471
Past service cost	(220,699)	(3,277)	10,850	(10,404)
Benefits paid	(990,333)	(10,024)	(927,828)	(11,522)
Interest cost on the obligation	1,021,245	10,438	1,006,187	11,062
(Gain) Loss on the obligation during the year	306,370	2,293	354,673	(10,772)
Balance at end	18,254,929	273,305	17,716,201	265,321

[1] As at December 31, 2016, the accrued benefit obligation of the pension plans includes a constructive obligation of $1,316.1 million ($1,174.8 million in 2015) arising from the adoption, in 2014, of *the Act to foster the financial health and sustainability of municipal defined benefit pension plans (S.Q.2014, Chapter 15)*.

f) Components of the expense for defined benefits plans

	2016		2015	
	Pension plans	Other plans	Pension plans	Other plans
Current service cost	422,145	8,554	411,054	10,471
Past service cost	(220,699)	(3,277)	10,850	(10,404)
Employee contributions	(176,092)		(144,302)	
Unamortized actuarial losses (gains) recognized upon plan amendments	211,588	(248)	(9,078)	(1,142)
Amortization of actuarial losses	187,193	92	221,021	1,283
Retirement benefits expense	424,135	5,121	489,545	208
Interest cost on the obligation	1,021,245	10,438	1,006,187	11,062
Expected return on plan assets	(1,007,988)		(919,224)	
Interest cost	13,257	10,438	86,963	11,062
Change in valuation allowance	196,704		161,134	
Total expense	634,096	15,559	737,642	11,270

11. EMPLOYEE FUTURE BENEFITS LIABILITY (continued)
(in thousands of dollars)

g) Principal assumptions

The principal assumptions used are as follows:

	2016		2015	
	Pension plans	Other plans	Pension plans	Other plans
Discount rate	5.90% to 6.50%	4.00%	6.00% to 6.50%	4.00%
Rate of expected return on plan assets	5.90% to 6.50%		6.00% to 6.50%	
Inflation rate	2.00% to 2.25%	2.25%	2.00% to 2.25%	2.25%
Salary escalation rate	2.50% to 2.75%	2.60%	2.50% to 2.75%	2.50%
Initial growth rate for healthcare costs		5.00% to 8.50%		5.00% to 8.50%
Ultimate growth rate for healthcare costs		3.00% to 5.50%		3.00% to 5.50%
Years when rate is expected to stabilize		2025 and 2027		2024 and 2025

Mortality tables

For the City's main pension plans, with the exception of the police officer plan, the City has chosen to make certain adjustments, based on the results of a municipal sector study, to the mortality table published by the Canadian Institute of Actuaries (CIA) in 2014. For the police officer pension plan, the City uses mortality table CPM-2014Publ combined with the CPM-B scale published by the CIA in 2014.

11. EMPLOYEE FUTURE BENEFITS LIABILITY (continued)
(in thousands of dollars)

h) Act fostering the financial health of defined benefit pension plans

On December 5, 2014, the Government of Québec assented to *the Act to foster the financial health and sustainability of municipal defined benefit pension plans (S.Q.2014, Chapter 15)*. This Act stipulates that municipal pension plans must be restructured. It also sets out amendments to be made to plans with regard to accrued service prior to January 1, 2014 as well as accrued service since that date.

Certain amendments provided by the Act applied on or after January 1, 2014 while others applied when agreements were signed by the parties following decisions made by an arbitrator or upon expiry of each collective agreement in effect.

Since the Act was assented to, applications instituting proceedings to declare the Act unconstitutional and invalid have been filed with the Superior Court of Québec by labour unions in opposition to this Act. Since the result of these proceedings and the amounts involved cannot be determined, the possible impacts of these publications have not been considered as at December 31, 2016.

The financial impacts of the Act on the components of the defined benefit pension plan charges resulting from the amendments applied during the year are shown in the following table:

	2016
	Increase (Decrease)
Current service cost	(151)
Past service cost (1)	(186,217)
Additional employee contributions	(16,214)
Unamortized actuarial losses recognized during plan amendments (1)	173,022
Amortization of actuarial losses	(655)
Retirement benefits expense	(30,215)
Interest cost	(249)
Reduction of charge	(30,464)

1 During the year, as permitted by the Act, the City decided to suspend the automatic indexation of pensions to retirees for its main pension plans as of January 1, 2017. This modification reduced past service cost by $179.2M offset by unamortized actuarial losses of $166.0M, for a net impact of $13.2M.

11. EMPLOYEE FUTURE BENEFITS LIABILITY (continued)
(in thousands of dollars)

Defined contribution plans and plans of elected officials

a) Description of plans

Some employees are members of defined contribution plans, under which the City's contribution represents a percentage of pay. Elected officials are members of defined benefit pension plans administered by the Commission administrative des régimes de retraite et d'assurances du Québec. The City's contributions are determined by the government.

b) Employer contributions

	2016	2015
Defined contribution plans	1,061	946
Pension plans of elected officials	2,457	2,435

12. CAPITAL ASSETS
(in thousands of dollars)

	Balance as at December 31, 2015	Increase	Decrease	Balance as at December 31, 2016
COST				
Infrastructures	11,085,134	851,237	483,603	11,452,768
Metro system	2,583,496	118,972	9,750	2,692,718
Metro cars	607,779	380,912	18,874	969,817
Buildings	3,314,244	243,250	4,683	3,552,811
Leasehold improvements	68,893	4,865	6,044	67,714
Vehicles	1,425,631	92,316	22,386	1,495,561
Office furniture and equipment	477,926	81,817	38,181	521,562
Machinery, tools and equipment	330,388	40,331	10,849	359,870
Land	1,204,724	36,942	357	1,241,309
Other	7,849		1,074	6,775
	21,106,064	1,850,642	595,801	22,360,905
ACCUMULATED AMORTIZATION				
Infrastructures	5,146,153	449,095	483,603	5,111,645
Metro system	658,962	85,614	9,673	734,903
Metro cars	469,816	5,523	18,874	456,465
Buildings	1,487,738	101,953	2,528	1,587,163
Leasehold improvements	37,326	6,857	6,044	38,139
Vehicles	756,850	109,040	22,365	843,525
Office furniture and equipment	216,505	74,979	38,165	253,319
Machinery, tools and equipment	161,349	32,756	10,849	183,256
Other	3,061	154	503	2,712
	8,937,760	865,971	592,604	9,211,127
NET CARRYING VALUE	12,168,304			13,149,778

The cost of the capital assets in the process of completion totalizing $711.4 million as at December 31, 2016 ($618.5 million in 2015).

13. OTHER NON-FINANCIAL ASSETS
(in thousands of dollars)

	2016	2015
Deposits to purchase metro cars and buses	316,065	440,001
Deposits to purchase other assets	53,200	28,300
Securities issuance costs	43,538	45,926
Other	9,939	9,536
	422,742	523,763

14. ACCUMULATED SURPLUS
(in thousands of dollars)

	2016	2015 Restated Note 3
Unrestricted operating surplus	196,384	203,361
Restricted operating surplus	404,068	335,333
Financial reserves and reserved funds	189,529	247,973
Deficit of capital asset activities	(223,046)	(55,906)
Recognized expenditures to be taxed or funded	(1,219,191)	(948,821)
Net investment in capital assets	8,211,939	7,374,400
	7,559,683	7,156,340

In accordance with the model developed by the Ministère des Affaires municipales et de l'Occupation du territoire of the Government of Québec, the City presents certain financial information prepared for tax purposes in its annual financial report. Besides a breakdown of the accumulated surplus in various items defined in the following paragraphs, the financial information is presented in Schedules 3 and 4; in Tables 1, 2, 3 and 4 of the Notes and Tables to the Consolidated Financial Statements; and in the section of the report that deals specifically with the municipal administration.

Restricted operating surplus

The restricted operating surplus is the portion of the accumulated surplus whose use is reserved under the *Act to reform the municipal territorial organization of the metropolitan regions of Montréal, Québec and Outaouais* (S.Q. 2000, chapter 56), under the *Charter of Ville de Montréal*, or under resolutions adopted by the city council, the Urban Agglomeration Council and the borough councils. It also includes the excess of operating activities in organizations under the City's control.

14. ACCUMULATED SURPLUS (continued)
(in thousands of dollars)

Financial reserves and reserved funds

Certain amounts collected by the City must be recorded in special accounts of accumulated surplus and used for specific purposes. These purposes include, in particular, the development and maintenance of parking areas; the provision of water and road network services; and the acquisition of capital assets.

Deficit of capital asset activities

The deficit of capital assets activities consists of the financing deficit over the costs of capital assets.

Recognized expenditures to be taxed or funded

Recognized expenditures to be taxed or funded is equal to the net balance of the expenditures recognized in the Consolidated Statement of Operations that will be subject to future revenues. Except for the balance related to the initial obligation as at January 1, 2007 for other retirement benefits and other post-employment employee future benefits, this amount will be transferred by allocating it to the unrestricted operating surplus over estimated periods through to 2045. The recognized expenditures to be taxed or funded results from the following:

- the application of transitional measures related to accounting policy changes made in 2000 (amortization over an estimated period through to 2020);
- the application of relief measures related to employee future benefits (amortization over an estimated period through to 2025);
- the application of these relief measures to mitigate the impact of the 2008 financial crisis the defined benefit pension plans (amortization over an estimated period until 2022);
- the application of relief measures related to the environmental liability (amortization as of 2017 over an estimated period through to 2042);
- the application of relief measures relating to the change in the treatment of the Quebec sales tax (QST) refund, allowed during the 2014 to 2017 period (amortized over a maximum 10-year period);
- the long-term financing of certain operating expenditures, essentially related to the 2003 and 2005 refinancing of notarized deeds relating to certain pension plans (amortization over an estimated period through to 2045).

Net investment in capital assets

The net investment in capital assets is equal to the net carrying value of capital assets, minus the debt portion related to these assets, plus Sinking Fund investments that have accrued to repay the debt and the receivables amount to be collected from third parties for said repayment.

15. TRANSFER REVENUES
(in thousands of dollars)

	2016	2015 Restated Note 3
Transfers - Operating activities		
Government of Canada	5,238	5,124
Government of Québec	438,019	432,706
Communauté métropolitaine de Montréal	38,201	38,745
	481,458	476,575
Transfers - Capital asset activities		
Government of Canada		
Canada/Québec Infrastructure program	34,683	13,353
Gas tax program and the Québec government contribution (TECQ)	91,681	77,637
Government of Québec		
Canada/Québec Infrastructure program	34,683	13,353
Québec/Municipalities Infrastructure program	355,417	738,682
Gas tax program and the Québec government contribution (TECQ)	117,099	59,350
Other	33,140	30,616
	666,703	932,991
	1,148,161	1,409,566

16. INTEREST INCOME
(in thousands of dollars)

	2016	2015
Sinking Fund	80,035	80,797
Cash and other interest	40,979	45,001
	121,014	125,798
Tax arrears	12,691	14,456
	133,705	140,254

17. FINANCIAL INSTRUMENTS

Use of derivative instruments

The City uses derivative financial instruments to reduce its exposure to changes in cash flows associated with changes in foreign exchange rates and interest rates on its long-term debt. It does not use derivative financial instruments for trading or speculative purposes.

Exchange and interest positions

As at December 31, 2016, considering the use of currency and interest-rate swaps, all of the City's loans are denominated in Canadian dollars and bear interest at a fixed rate.

Credit risk

In using derivative financial instruments, the City is exposed to credit losses arising from third-party defaults on payment. The City believes these parties will be able to meet their obligations.

Fair value

The fair value of cash and temporary investments, accounts receivable other than those used to repay long-term debt, temporary loans, and accounts payable, provisions and accrued liabilities approximate their carrying values due to the short maturities of these financial instruments.

The following table shows the fair values and carrying values of other financial instruments:

(in thousands of dollars)	2016		2015	
	Fair value	Carrying value	Fair value	Carrying value
Investments	3,554,343	3,474,407	3,270,901	3,150,766
Receivables amount to be used to repay long-term debt	2,447,415	2,294,939	2,629,893	2,403,400
Long-term debt	12,069,709	10,891,752	11,935,309	10,562,006

The fair value of investments is the amount at which they could be exchanged on the market between parties at arm's length. The fair value of the receivables amount to be used to repay long-term debt and the long-term debt is essentially based on a discounted cash flows calculation that uses rates of return or the year-end market price of similar instruments with the same maturity. The fair value of swaps is the amount the City would receive or pay if these contracts closed at that date. As at December 31, 2016, the fair value of financial liabilities associated with swaps stood at $36.4 million ($31.9 million in 2015). It is included in the long-term debt amounts.

18. COMMITMENTS AND CONTINGENCIES

a) Contractual obligations

The City has contractual obligations relating primarily to property leases, equipment and machinery rentals, and snow-removal and garbage collection services. Under these obligations, the City has committed to paying a total amount of $1,105.9 million. The estimated amounts payable over the coming years are as follows:

2017	2018	2019	2020	2021	2022-2050	Total
$314.5M	$255.0M	$182.0M	$130.0M	$59.0M	$165.4M	$1,105.9M

Capital activity commitments total $2,646.3 million of which $1,046.7 million is to purchase metro cars.

b) F1 Grand Prix of Canada

As part of a renewal agreement enabling the F1 Grand Prix of Canada to be retained in Montréal, the City has undertaken to pay an initial annual contribution of $17.4 million until 2024 inclusively. This contribution will be increased by 2% per year. In this regard, the initial annual contribution receivable by the City from its partners is $16.3 million. This contribution receivable will also be increased by 2% per year.

In addition, under a lease agreement for the leasing of the Circuit Gilles-Villeneuve, the City has undertaken to carry out improvement work on the track by 2019 for a maximum of $48.0 million.

c) Claims and insurance

Claims pending against the City amount to $499.1 million. In the opinion of the City's legal counsel, the settlement of these claims will not materially impact the City's financial position.

The municipal administration has not contracted any risk insurance. However, according to its Charter, the City must forecast, in its budget established for tax purposes, an amount of at least 1% of its expenditures to cover expenditures not forecasted in the budget, the settling of claims and payment of judgments.

d) Environment

The City, as an owner of contaminated land, may be required to perform certain acts to comply with, in particular, the *Act to amend the Environment Quality Act* (S.Q. 2002, chapter 11). The City may have to characterize and, if necessary, rehabilitate a parcel of land after it has been used or when its use has been changed.

18. COMMITMENTS AND CONTINGENCIES (continued)

e) Organization and governance of shared transportation in the Montréal metropolitan area

The *Act to modify mainly the organization and governance of shared transportation in the Montréal metropolitan area* (S.Q.2016, chapter 8) was adopted on May 19, 2016 and will take effect on June 1, 2017. It provides for a new sharing of powers to foster the mobility of persons, specifically by abolishing the Agence métropolitaine de transport (AMT) and replacing it with two organizations: the Autorité régionale de transport métropolitain (ARTM), which will handle the planning, development, fare structure and financing of public transit services in the Greater Montréal Area, and the Réseau de transport métropolitain (RTM), which will be responsible for operating shared transportation services by commuter train.

For purposes of applying the Act, public transportation organizations, which includes the STM, will need to reach agreements with the ARTM.

The ARTM will select equipment and infrastructure belonging to transportation organizations that have a metropolitan character, which it will acquire in accordance with the terms of the Act.

Given the stage of implementation of the two new organizations, the City is unable to assess the impact of the Act on its financial position.

19. PRIOR PERIOD

Certain comparative figures have been reclassified to conform to the current year's presentation.

TABLE 1 – CONSOLIDATED OPERATING SURPLUS (DEFICIT) FOR TAX PURPOSES BY RESPONSIBILITY

	2016	
	Local responsibilities	
	Budget	Actual (1)
Revenues		
Taxes	3,202,693	3,215,632
Payments in lieu of taxes	247,844	252,329
Quota shares		
Transfers	157,724	163,819
Services rendered	417,192	420,053
Fee collection	168,019	220,893
Fines and penalties	106,827	90,355
Interest	65,165	79,210
Other revenues	38,991	27,294
	4,404,455	4,469,585
Operating expenditures		
General administration	734,488	674,093
Public security	847,792	847,836
Transportation	909,267	894,038
Environmental hygiene	445,363	433,999
Health and welfare	114,288	106,956
Urban planning and development	194,255	178,104
Recreation and culture	513,496	542,280
Financing expenses	256,294	246,456
	4,015,243	3,923,762
Surplus before financing and allocations	389,212	545,823
Financing		
Repayment of long-term debt (3)	(281,186)	(284,438)
Allocations (Note 14)		
Capital asset activities	(1,125)	(16,439)
Restricted operating surplus	35,127	57,732
Financial reserves and reserved funds	(117,261)	(136,870)
Recognized expenditures to be taxed or funded	(20,632)	(1,752)
	(103,891)	(97,329)
Operating surplus (deficit) for tax purposes for the year	4,135	164,056

1 The transfer revenues, as well as the equivalent operating expenditures presented in environmental hygiene, are reduced by $95.0 million ($55.0 million in 2015) equal to the municipal administration specific quota share with respect to the infrastructure work completed under urban agglomeration responsibilities eligible for financial assistance under the gas tax and Quebec government contribution program (TECQ) and under the Building Canada Fund - Quebec (BCFQ).

2 Eliminations refer to transactions carried out between organizations included in the financial reporting entity as well as to interjurisdictional transactions.

3 Repayment of long-term debt includes loan repayments and payments to the Sinking Fund related to loans taken out to finance capital expenditures and for which repayment is not covered by third parties.

(in thousands of dollars)

2016						2015
Urban agglomeration responsibilities		Eliminations (2)		Total		Total
Budget	Actual	Budget	Actual	Budget	Actual	Actual
46,070	46,767	(19,645)	(20,635)	3,229,118	**3,241,764**	3,156,025
				247,844	**252,329**	254,545
2,676,108	2,672,499	(2,270,996)	(2,267,746)	405,112	**404,753**	406,084
355,253	317,639			512,977	**481,458**	476,575
692,450	690,564	(113,273)	(118,677)	996,369	**991,940**	984,170
1,943	1,883			169,962	**222,776**	196,809
92,718	73,378			199,545	**163,733**	170,757
74,131	73,411	(19,073)	(18,916)	120,223	**133,705**	140,254
114,833	119,268	(43,709)	(45,467)	110,115	**101,095**	101,352
4,053,506	3,995,409	(2,466,696)	(2,471,441)	5,991,265	**5,993,553**	5,886,571
347,040	329,015	(251,003)	(255,725)	830,525	**747,383**	783,272
1,015,838	1,033,605	(833,456)	(834,064)	1,030,174	**1,047,377**	1,037,140
1,814,300	1,842,971	(978,773)	(978,346)	1,744,794	**1,758,663**	1,771,566
227,639	240,559	(240,382)	(236,972)	432,620	**437,586**	418,528
36,416	30,542	(15,326)	(15,190)	135,378	**122,308**	127,320
58,537	74,431	(40,370)	(40,770)	212,422	**211,765**	195,131
150,773	150,971	(104,117)	(105,640)	560,152	**587,611**	548,122
270,885	255,253	(19,073)	(18,916)	508,106	**482,793**	484,093
3,921,428	3,957,347	(2,482,500)	(2,485,623)	5,454,171	**5,395,486**	5,365,172
132,078	38,062	15,804	14,182	537,094	**598,067**	521,399
(261,941)	(240,707)	(961)	(961)	(544,088)	**(526,106)**	(470,242)
(5,139)	(20,684)		(300)	(6,264)	**(37,423)**	(26,570)
161	10,723			35,288	**68,455**	45,621
(84,710)	(95,051)			(201,971)	**(231,921)**	(104,588)
219,641	283,842	(14,843)	(12,921)	184,166	**269,169**	192,955
129,953	178,830	(14,843)	(13,221)	11,219	**68,280**	107,418
90	(23,815)			4,225	**140,241**	158,575

TABLE 2 – CONSOLIDATED (DEFICIT) SURPLUS OF CAPITAL ASSET ACTIVITIES FOR TAX PURPOSES BY RESPONSIBILITY

	2016	
	Local responsibilities	
	Budget	Actual
Revenues		
Quota shares		
Transfers	169,300	104,641
Developers contributions	12,900	141
Other revenues		6,021
	182,200	110,803
Capital expenditures		
General administration	66,600	36,328
Public security	200	2,053
Transportation	379,500	295,334
Environmental hygiene	161,800	130,206
Health and welfare	73,159	38,603
Urban planning and development	85,900	34,851
Recreation and culture	223,500	174,602
	990,659	711,977
Deficit before financing and allocations	(808,459)	(601,174)
Financing		
Long-term financing of capital asset activities	674,234	299,731
Allocations		
Operating activities	1,125	16,439
Restricted operating surplus		10,307
Financial reserves and reserved funds (3)	133,100	130,004
	134,225	156,750
(Deficit) Surplus of capital asset activities for tax purposes for the year		(144,693)

1 The revenues include transfers of $95.0 million ($55.0 million in 2015) equal to the municipal administration specific quota share with respect to the infrastructure work completed under urban agglomeration responsibilities eligible for financial assistance under the gas tax and Quebec government contribution program (TECQ) and under the Building Canada Fund - Quebec (BCFQ).

2 Eliminations refer to transactions carried out between organizations included in the financial reporting entity.

3 The allocation of $162.4 million ($104.4 million in 2015) presented in urban agglomeration responsibilities includes an amount of $24.6 million ($10.5 million in 2015) from local responsibilities.

(in thousands of dollars)

2016						2015 Restated Note 3
Urban agglomeration responsibilities		Eliminations (2)		Total		Total
Budget	Actual (1)	Budget	Actual	Budget	Actual	Actual
15,804	14,182	(15,804)	(14,182)			
667,734	562,062			837,034	**666,703**	932,991
2,700	109			15,600	**250**	6,742
	1,470				**7,491**	4,857
686,238	577,823	(15,804)	(14,182)	852,634	**674,444**	944,590
44,800	26,210			111,400	**62,538**	50,541
60,500	47,298			60,700	**49,351**	39,890
741,803	747,233			1,121,303	**1,042,567**	1,172,296
228,200	255,441			390,000	**385,647**	268,854
	29			73,159	**38,632**	490
67,600	8,493			153,500	**43,344**	44,157
137,500	53,961			361,000	**228,563**	221,650
1,280,403	1,138,665			2,271,062	**1,850,642**	1,797,878
(594,165)	(560,842)	(15,804)	(14,182)	(1,418,428)	**(1,176,198)**	(853,288)
430,226	370,310	15,804		1,120,264	**670,041**	742,337
5,139	20,684		300	6,264	**37,423**	26,570
					10,307	14,434
158,800	162,543			291,900	**292,547**	211,212
163,939	183,227		300	298,164	**340,277**	252,216
	(7,305)		(13,882)		**(165,880)**	141,265

TABLE 3 – CONSOLIDATED ACCUMULATED SURPLUS		(in thousands of dollars)
	2016	2015 Restated, Note 3
Accumulated surplus		
Unrestricted operating surplus	**196,384**	203,361
Restricted operating surplus	**404,068**	335,333
Financial reserves and reserved funds	**189,529**	247,973
Deficit of capital asset activities	**(223,046)**	(55,906)
Recognized expenditures to be taxed or funded	**(1,219,191)**	(948,821)
Net investment in capital assets	**8,211,939**	7,374,400
	7,559,683	7,156,340
Breakdown of different items		
Restricted operating surplus		
Allocation to the following year	**48,168**	39,100
Restricted surplus - Boroughs	**190,490**	156,944
Restricted surplus - Specific projects	**40,506**	20,228
Restricted surplus - Other purposes	**124,904**	119,061
	404,068	335,333
Financial reserves and reserved funds		
Financial reserves		
Water	**115,528**	170,058
Road network	**47,384**	50,645
Capital assets		142
	162,912	220,845
Reserved funds		
Working capital	**10,347**	10,904
Balance of closed-loan by-laws	**8,592**	7,886
Parking areas	**5,310**	5,329
Other	**2,368**	3,009
	26,617	27,128
	189,529	247,973
Recognized expenditures to be taxed or funded		
Transitional measures as of January 1, 2000		
Employee benefits		(4,256)
Employee future benefits		
Pension plans	**108,402**	349,591
Other plans	**(199,140)**	(199,140)
	(90,738)	150,451
Environmental liability	**(40,000)**	(40,000)
QST transitional measure	**(22,500)**	
Long-term financing of operating activities	**(1,065,953)**	(1,055,016)
	(1,219,191)	(948,821)

TABLE 3 – CONSOLIDATED ACCUMULATED SURPLUS (Continuded)		(in thousands of dollars)
	2016	**2015 Restated, Note 3**
Net investment in capital assets		
Assets		
Investments - Sinking Fund	**2,590,478**	2,252,041
Receivables amounts to be used to repay long-term debt	**2,159,664**	2,256,104
Capital assets	**13,149,778**	12,168,304
	17,899,920	16,676,449
Liabilities		
Deferred revenues - Unrealized net foreign exchange gains		(512)
Long-term debt	**(10,891,752)**	(10,562,006)
Debt not affecting the net investment in capital assets	**1,203,771**	1,260,469
	(9,687,981)	(9,302,049)
	8,211,939	7,374,400

TABLE 4 – CONSOLIDATED NET TOTAL LONG-TERM DEBT		*(in thousands of dollars)*
	2016	**2015 Restated, Note 3**
Long-term debt of the municipal administration	**8,338,522**	7,992,494
Add		
Long-term unfunded operating expenditures	**83,109**	30,681
Long-term unfunded capital expenditures	**28,242**	
Other		
Purchase of land	**17,659**	16,996
Government receivables	**14,538**	74,386
Deduct		
Receivables amount dedicated to repayment on long-term debt	**1,243,221**	1,321,027
Amount accumulated for repayment on long-term debt	**1,927,505**	1,644,966
Amount recoverable through user fees	**334,870**	332,687
Surplus of capital asset activities		21,982
Net long-term debt of the municipal administration	**4,976,474**	4,793,895
Share in the net total long-term debt of controlled organizations	**949,104**	858,347
Consolidated net long-term debt	**5,925,578**	5,652,242
Quota share in net total long-term debt - CMM	**12,072**	13,599
Consolidated net total long-term debt	**5,937,650**	5,665,841

Municipal Administration Financial Reporting

2016

Breakdown by Responsibility

Water Management

Breakdown of Mixed Expenditures

Municipal Administration Financial Reporting

2016

Breakdown by Responsibility

NON-CONSOLIDATED OPERATING (DEFICIT) SURPLUS FOR TAX PURPOSES BY RESPONSIBILITY

	2016	
	Local responsibilities	
	Budget	Actual (1)
Revenues		
Taxes	3,202,693	3,215,632
Payments in lieu of taxes	247,844	252,329
Quota shares		
Transfers	157,724	163,819
Services rendered	273,274	281,939
Fee collection	168,019	220,893
Fines and penalties	106,827	90,355
Interest	65,165	79,013
Other revenues	24,325	15,536
	4,245,871	4,319,516
Operating expenditures		
General administration	734,488	674,093
Public security	847,792	847,836
Transportation	828,773	816,377
Environmental hygiene	445,363	433,999
Health and welfare	63,442	63,193
Urban planning and development	183,858	169,303
Recreation and culture	513,250	542,071
Financing expenses	254,255	244,603
	3,871,221	3,791,475
Surplus before financing and allocations	374,650	528,041
Financing		
Repayment of long-term debt (3)	(271,884)	(275,024)
Allocations (Note 14)		
Capital asset activities		(6,678)
Restricted operating surplus	35,127	57,732
Financial reserves and reserved funds	(117,261)	(136,870)
Recognized expenditures to be taxed or funded	(20,632)	(1,752)
	(102,766)	(87,568)
Operating surplus (deficit) for tax purposes for the year		165,449

1 The transfer revenues, as well as the equivalent operating expenditures presented in environmental hygiene, are reduced by $95.0 million ($55.0 million in 2015) equal to the municipal administration specific quota share with respect to the infrastructure work completed under urban agglomeration responsibilities eligible for financial assistance under the gas tax and Quebec government contribution program (TECQ) and under the Building Canada Fund - Quebec (BCFQ).

2 The eliminations refer to interjurisdictional transactions.

3 Repayment of long-term debt represents loan repayments and payments to the Sinking Fund related to loans taken out to finance capital expenditures and for which repayment is not covered by third parties.

(in thousands of dollars)

2016						2015
Urban agglomeration responsibilities		Eliminations (2)		Total		Total
Budget	Actual	Budget	Actual	Budget	Actual	Actual
46,070	46,767			3,248,763	**3,262,399**	3,173,700
				247,844	**252,329**	254,545
2,246,308	2,241,298	(1,841,196)	(1,836,545)	405,112	**404,753**	406,084
95,498	80,716			253,222	**244,535**	256,024
58,135	60,847	(21,057)	(28,748)	310,352	**314,038**	304,688
1,943	1,883			169,962	**222,776**	196,809
92,718	73,378			199,545	**163,733**	170,757
54,948	59,037			120,113	**138,050**	133,630
2,237	3,834			26,562	**19,370**	28,647
2,597,857	2,567,760	(1,862,253)	(1,865,293)	4,981,475	**5,021,983**	4,924,884
347,040	329,015	(241,845)	(246,697)	839,683	**756,411**	790,124
1,015,838	1,033,605	(833,456)	(834,064)	1,030,174	**1,047,377**	1,037,140
529,988	525,418	(433,778)	(434,222)	924,983	**907,573**	870,125
227,639	240,559	(239,524)	(236,141)	433,478	**438,417**	419,298
36,416	30,542	(4,394)	(4,394)	95,464	**89,341**	92,033
58,537	74,431	(33,017)	(33,533)	209,378	**210,201**	193,987
96,130	94,039	(76,239)	(76,242)	533,141	**559,868**	523,338
140,622	138,344			394,877	**382,947**	377,064
2,452,210	2,465,953	(1,862,253)	(1,865,293)	4,461,178	**4,392,135**	4,303,109
145,647	101,807			520,297	**629,848**	621,775
(175,518)	(174,288)			(447,402)	**(449,312)**	(387,159)
	(1,946)				**(8,624)**	(25,329)
	10,723			35,127	**68,455**	41,689
(86,485)	(95,051)			(203,746)	**(231,921)**	(104,115)
116,356	132,426			95,724	**130,674**	(1,048)
29,871	46,152			(72,895)	**(41,416)**	(88,803)
	(26,329)				**139,120**	145,813

NON-CONSOLIDATED (DEFICIT) SURPLUS OF CAPITAL ASSET ACTIVITIES FOR TAX PURPOSES BY RESPONSIBILITY

	2016	
	Local responsibilities	
	Budget	Actual
Revenues		
Transfers	169,300	104,641
Developers contributions	12,900	141
Other revenus		6,021
	182,200	110,803
Acquisition of capital assets		
General administration	66,600	36,328
Public security	200	2,053
Transportation	378,500	294,719
Environmental hygiene	161,800	130,206
Health and welfare		
Urban planning and development	85,900	34,694
Recreation and culture	223,500	174,602
	916,500	672,602
Deficit before financing and allocations	(734,300)	(561,799)
Financing		
Long-term financing of capital asset activities	601,200	299,731
Allocations		
Operating activities		6,678
Restricted operating surplus		10,307
Financial reserves and reserved funds (2)	133,100	130,004
	133,100	146,989
(Deficit) Surplus of capital asset activities for tax purposes for the year		(115,079)

1 The revenues include transfers of $95.0 million ($55.0 million in 2015) equal to the municipal administration specific quota share with respect to the infrastructure work completed under urban agglomeration responsibilities eligible for financial assistance under the gas tax and Quebec government contribution program (TECQ) and under the Building Canada Fund - Quebec (BCFQ).

2 The allocation of $162.5 million ($83.3 million in 2015) presented in urban agglomeration responsibilities includes an amount of $24.6 million ($10.5 million in 2015) from local responsibilities.

(in thousands of dollars)

2016				2015
Urban agglomeration responsibilities		Total		Total
Budget	Actual (1)	Budget	Actual	Actual
144,900	131,786	314,200	**236,427**	195,018
2,700	109	15,600	**250**	6,742
	1,470		**7,491**	4,857
147,600	133,365	329,800	**244,168**	206,617
44,800	26,210	111,400	**62,538**	50,541
60,500	47,298	60,700	**49,351**	39,890
134,600	99,786	513,100	**394,505**	310,120
228,200	255,441	390,000	**385,647**	268,854
	29		**29**	(638)
67,600	8,493	153,500	**43,187**	40,934
137,500	53,961	361,000	**228,563**	221,650
673,200	491,218	1,589,700	**1,163,820**	931,351
(525,600)	(357,853)	(1,259,900)	**(919,652)**	(724,734)
366,800	259,479	968,000	**559,210**	609,785
	1,946		**8,624**	25,329
			10,307	14,434
158,800	162,543	291,900	**292,547**	190,212
158,800	164,489	291,900	**311,478**	229,975
	66,115		**(48,964)**	115,026

NON-CONSOLIDATED ACCUMULATED SURPLUS BY RESPONSIBILITY

	2016		
	Local responsibilities	Urban agglomeration responsibilities	Total
Accumulated surplus			
Unrestricted operating surplus	196,970	4,465	**201,435**
Restricted operating surplus	313,340	17,847	**331,187**
Financial reserves and reserved funds	88,503	87,969	**176,472**
Deficit of capital asset activities	(16,521)	(11,721)	**(28,242)**
Recognized expenditures to be taxed or funded	(1,263,763)	153,507	**(1,110,256)**
Net investment in capital assets			**4,988,273**
			4,558,869
Breakdown of different items			
Allocated operating surplus			
Allocation to the following year	45,618	2,550	**48,168**
Restricted surplus - Boroughs	190,490		**190,490**
Restricted surplus - Special projects	25,272	15,234	**40,506**
Restricted surplus - Other purposes	51,960	63	**52,023**
	313,340	17,847	**331,187**
Financial reserves and reserved funds			
Financial reserves			
Water	33,063	82,465	**115,528**
Road network	42,586	4,798	**47,384**
Capital assets			
	75,649	87,263	**162,912**
Reserved funds			
Working capital	3,347		**3,347**
Balance of closed-loan by-laws	1,829	706	**2,535**
Parking areas	5,310		**5,310**
Other	2,368		**2,368**
	12,854	706	**13,560**
	88,503	87,969	**176,472**
Recognized expenditures to be taxed or funded			
Transitional measures of January 1, 2000			
Employee benefits			
Employee future benefits			
Pension plans	(79,507)	232,745	**153,238**
Other plans	(96,320)	(9,914)	**(106,234)**
	(175,827)	222,831	**47,004**
Environmental liability	(40,000)		**(40,000)**
QST transitional measure	(9,900)	(12,600)	**(22,500)**
Long-term financing of operating activities	(1,038,036)	(56,724)	**(1,094,760)**
	(1,263,763)	153,507	**(1,110,256)**

(in thousands of dollars)

	2015		
	Local responsibilities	Urban agglomeration responsibilities	Total
Accumulated surplus			
Unrestricted operating surplus	151,101	58,675	209,776
Restricted operating surplus	261,519	690	262,209
Financial reserves and reserved funds	106,527	128,389	234,916
Surplus (Deficit) of capital asset activities	98,559	(76,577)	21,982
Recognized expenditures to be taxed or funded	(1,265,528)	287,147	(978,381)
Net investment in capital assets			4,570,293
			4,320,795
Breakdown of different items			
Allocated operating surplus			
Allocation to the following year	39,100		39,100
Restricted surplus - Boroughs	156,944		156,944
Restricted surplus - Special projects	19,601	627	20,228
Restricted surplus - Other purposes	45,874	63	45,937
	261,519	690	262,209
Financial reserves and reserved funds			
Financial reserves			
Water	47,141	122,917	170,058
Road network	45,197	5,448	50,645
Capital assets	118	24	142
	92,456	128,389	220,845
Reserved funds			
Working capital	3,904		3,904
Balance of closed-loan by-laws	1,829		1,829
Parking areas	5,329		5,329
Other	3,009		3,009
	14,071		14,071
	106,527	128,389	234,916
Recognized expenditures to be taxed or funded			
Transitional measures of January 1, 2000			
Employee benefits		(4,256)	(4,256)
Employee future benefits			
Pension plans	(84,266)	323,683	239,417
Other plans	(96,320)	(9,914)	(106,234)
	(180,586)	313,769	133,183
Environmental liability	(40,000)		(40,000)
QST transitional measure			
Long-term financing of operating activities	(1,044,942)	(22,366)	(1,067,308)
	(1,265,528)	287,147	(978,381)

NON-CONSOLIDATED BY-ITEM AMOUNTS FOR TAX PURPOSES BY RESPONSIBILITY

	2016	
	Local responsibilities	
	Budget	Actual
Remuneration		
Elected officials	10,569	10,054
Employees	816,179	815,473
Employer contributions		
Elected officials	4,039	4,175
Employees	335,489	331,824
Transportation and communication	28,964	30,209
Professionnal, technical and other services		
Professional fees	38,542	34,237
Purchase of technical services	218,657	195,344
Other	3,340	3,182
Leasing, maintenance and repairs		
Leasing	79,093	69,631
Maintenance and repairs	59,199	52,105
Durable goods		
Construction	3,602	10,035
Other durable goods	1,592	955
Non-durable goods		
Delivery of public services	45,765	45,332
Other non-durable goods	111,715	109,664
Financing expenses		
Interest and other charges on long-term debt borne by:		
The municipality	215,156	201,803
Government of Québec and its enterprises	14,822	19,167
Other third parties	22,967	22,412
Other financing expenses	1,310	1,221
Contributions to organizations		
Municipal organizations		
Quota shares - Agglomération de Montréal	1,841,196	1,836,545
Société de transport de Montréal		
Montréal Metropolitan Community	26,456	26,179
Reconstituted municipalities		
Other	10,071	12,413
Government organizations		
Agence métropolitaine de transport		
Other		
Other organizations	88,970	113,928
Other items		
Doubtful account or bad debts	9,227	75
Other	(115,649)	(154,488)
	3,871,221	3,791,475

[1] Eliminations refer to interjurisdictional transactions.

(in thousands of dollars)

2016						2015
Urban agglomeration responsibilities		Eliminations (1)		Total		Total
Budget	Actual	Budget	Actual	Budget	Actual	Actual
				10,569	**10,054**	9,820
865,816	864,439			1,681,995	**1,679,912**	1,640,581
				4,039	**4,175**	4,109
318,724	341,726			654,213	**673,550**	715,480
12,787	11,838			41,751	**42,047**	41,498
16,834	13,657		(14)	55,376	**47,880**	42,656
81,808	77,082	(782)	(3,354)	299,683	**269,072**	265,548
2,316	942			5,656	**4,124**	3,908
32,850	31,274	(13,188)	(13,169)	98,755	**87,736**	89,715
30,953	30,177	(7,034)	(11,870)	83,118	**70,412**	64,669
10,307	8,905			13,909	**18,940**	13,446
53	341	(53)	(341)	1,592	**955**	409
42,845	38,036			88,560	**83,368**	84,524
44,697	41,808			156,412	**151,472**	145,974
93,649	88,680			308,805	**290,483**	283,883
27,795	31,895			42,617	**51,062**	53,590
19,073	17,761			42,040	**40,173**	38,892
105	8			1,415	**1,229**	699
		(1,841,196)	(1,836,545)			
445,604	445,383			445,604	**445,383**	422,901
11,820	11,695			38,276	**37,874**	29,399
34,650	30,279			44,721	**42,692**	28,053
64,000	58,707			64,000	**58,707**	63,295
12,019	14,883			12,019	**14,883**	12,010
27,075	56,190			116,045	**170,118**	142,678
9,830	1,738			19,057	**1,813**	21,737
246,600	248,509			130,951	**94,021**	83,635
2,452,210	2,465,953	(1,862,253)	(1,865,293)	4,461,178	**4,392,135**	4,303,109

Municipal Administration Financial Reporting

2016

Water Management

NON-CONSOLIDATED OPERATING SURPLUS FOR TAX PURPOSES RELATED TO WATER MANAGEMENT BY RESPONSIBILITY

	2016	
	Local responsibilities	
	Budget	Actual
Revenues		
Quota shares - Water service		
Quota shares - Supply of drinking water		
Quota shares - TECQ Investment Financing		
Quota shares - FCCQ Investment Financing		
Quota shares - Rates		
Wastewater fees and the sale of Charlemagne drinking water		
Water taxe service	309,247	310,468
Flat rate and meter fees	25,289	24,056
Revenues for delegated agglomeration activities	330	201
Other revenues from local sources	798	1,218
Transfers		3,691
	335,664	339,634
Expenditures		
Quota shares for financing urban agglomeration activities	187,166	182,515
Expenditures	117,569	105,669
	304,735	288,184
Surplus before financing and allocations	30,929	51,450
Financing		
Repayment of long-term debt (1)	27,186	28,736
Allocations (Note 14)		
Capital asset financial activities		
Recognized expenditures to be taxed or funded	(618)	(465)
Water financial reserve	(3,125)	(22,249)
	(3,743)	(22,714)
Operating surplus for tax purposes for the year		

1 Repayment of long-term debt includes loan repayments and payments to the Sinking Fund related to loans taken out to finance capital expenditures and for which repayment is not covered by third parties. For the purpose of this table, the repayment of long-term debt includes financing expenses.

2 Interjurisdictional transactions have been eliminated.

(in thousands of dollars)

2016						2015
Urban agglomeration responsibilities		Eliminations (2)		Total		Total
Budget	Actual	Budget	Actual	Budget	Actual	Actual
161,564	161,564	(132,286)	(132,286)	29,278	**29,278**	29,631
59,702	54,550	(52,085)	(47,471)	7,617	**7,079**	6,723
4,447	4,447			4,447	**4,447**	4,064
553	553			553	**553**	288
2,895	3,038	(2,795)	(2,758)	100	**280**	274
4,189	4,345			4,189	**4,345**	4,321
				309,247	**310,468**	305,147
				25,289	**24,056**	24,882
		(330)	(201)			
288	578		(15)	1,086	**1,781**	1,829
660	733			660	**4,424**	4,297
234,298	229,808	(187,496)	(182,731)	382,466	**386,711**	381,456
		(187,166)	(182,515)			
183,150	171,679	(330)	(216)	300,389	**277,132**	275,469
183,150	171,679	(187,496)	(182,731)	300,389	**277,132**	275,469
51,148	58,129			82,077	**109,579**	105,987
40,650	39,933			67,836	**68,669**	67,062
						7
				(618)	**(465)**	(457)
(10,496)	(18,196)			(13,623)	**(40,445)**	(38,475)
(10,496)	(18,196)			(14,241)	**(40,910)**	(38,925)

NON-CONSOLIDATED (DEFICIT) SURPLUS OF CAPITAL ASSET ACTIVITIES FOR TAX PURPOSES RELATED TO WATER MANAGEMENT BY RESPONSIBILITY

	2016	
	Local responsibilities	
	Budget	Actual
Revenues		
Quota shares - Related municipalities		
Transfers	96,787	63,294
Other revenues		
	96,787	63,294
Acquisition of capital assets		
Drinking water production		
Wastewater treatment		
Water and wastewater - Secondary infrastructure	132,253	115,289
Buildings		10,042
	132,253	125,331
Deficit before financing and allocations	(35,466)	(62,037)
Financing		
Long-term financing of capital asset activities	18,921	3,567
Allocations		
Operating activities		
Water financial reserve (1)	16,545	12,108
	16,545	12,108
(Deficit) Surplus of capital asset activities for tax purposes for the year		(46,362)

[1] The allocation of $84.3 million ($55.9 million in 2015) presented in urban agglomeration responsibilities includes an amount of $24.6 million ($10.5 million in 2015) from local responsibilities.

(in thousands of dollars)

2016				2015
Urban agglomeration responsibilities		Total		Total
Budget	Actual	Budget	Actual	Actual
	500		**500**	1,556
101,885	120,937	198,672	**184,231**	139,045
	465		**465**	
101,885	121,902	198,672	**185,196**	140,601
120,696	164,174	120,696	**164,174**	78,322
58,857	45,075	58,857	**45,075**	26,039
29,757	25,164	162,010	**140,453**	146,375
	13,595		**23,637**	3,940
209,310	248,008	341,563	**373,339**	254,676
(107,425)	(126,106)	(142,891)	**(188,143)**	(114,075)
25,352	46,648	44,273	**50,215**	50,323
				(7)
82,073	84,267	98,618	**96,375**	93,493
82,073	84,267	98,618	**96,375**	93,486
	4,809		**(41,563)**	29,734

Municipal Administration Financial Reporting

2016

Breakdown of Mixed Expenditures

Vérificateur général
de la Ville de Montréal

INDEPENDENT AUDITOR'S REPORT

To the Mayor,
The Chairman and the Members of the Executive Committee,
The Members of the Council of Ville de Montréal,
The Members of the Montréal Agglomeration Council

I have audited the accompanying Table of Breakdown of Mixed Expenditures of Ville de Montréal between local responsibilities and urban agglomeration responsibilities ("Table of Breakdown of Mixed Expenditures") for the year ended December 31, 2016. This breakdown has been determined by management based on by-law RCG06-054 adopted by the Montréal Agglomeration Council on December 13, 2006 and its subsequent changes (hereinafter "the regulatory requirements").

Management's Responsibility for the Table of Breakdown of Mixed Expenditures

Management is responsible for the preparation of the Table of Breakdown of Mixed Expenditures in accordance with the regulatory requirements and for such internal control as management determines is necessary to enable the preparation of a table of breakdown of mixed expenditures that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the Table of Breakdown of Mixed Expenditures based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Table of Breakdown of Mixed Expenditures is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Table of Breakdown of Mixed Expenditures. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Table of Breakdown of Mixed Expenditures, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Table of Breakdown of Mixed Expenditures in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Table of Breakdown of Mixed Expenditures.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the Table of Breakdown of Mixed Expenditures of Ville de Montréal between local responsibilities and urban agglomeration responsibilities for the year ended December 31, 2016 is prepared, in all material respects, in accordance with the regulatory requirements.

Auditor General of the Ville de Montréal,

Michèle Galipeau, CPA auditor, CA

Michèle Galipeau, CPA auditor, CA
Montréal
April 3, 2017

TABLE OF BREAKDOWN OF MIXED EXPENDITURES BY RESPONSIBILITY

	2016	
	Local responsibilities	
	Budget	Actual
Expenditures		
General administration	177,459	167,670
Transportation	8,898	8,993
Environmental hygiene	7,985	7,665
Health and welfare	1,362	1,432
Urban planning and development	23,224	17,103
Recreation and culture	6,510	6,765
Total expenditures	225,438	209,628

[1] Eliminations refer to interjurisdictional transactions.

(in thousands of dollars)

2016						2015
Urban agglomeration responsibilities		Eliminations (1)		Total		
Budget	Actual	Budget	Actual	Budget	Actual	Actual
147,245	151,396	(76)	(496)	324,628	**318,570**	302,279
3,461	3,447		(4)	12,359	**12,436**	9,788
9,641	8,859			17,626	**16,524**	14,263
2,456	2,549			3,818	**3,981**	4,071
10,226	8,814		(3)	33,450	**25,914**	26,261
4,960	5,222		(1)	11,470	**11,986**	10,682
177,989	180,287	(76)	(504)	403,351	**389,411**	367,344

1. MIXED EXPENDITURES

An Act respecting the exercise of certain municipal powers in certain urban agglomerations (CQLR, chapter E-20.001), completed by the *Montréal Agglomeration Order* (Order-in-Council No. 1229-2005) and the orders that amended it thereafter, lists and defines the urban agglomeration responsibilities. Under this Act, expenditures incurred by the Ville de Montréal in carrying out by the municipal administration an act that falls within the exercise of an agglomeration power and, at the same time, another power, are considered mixed expenditures; these mixed expenditures are subject to a by-law of the Urban Agglomeration Council that sets out criteria for establishing which portion of the mixed expenditure is an expenditure related to the exercise of an agglomeration power.

The term "municipal administration" refers to Ville de Montréal excluding the organizations under its control.

2. BREAKDOWN OF MIXED EXPENDITURES

The mixed expenditures of the municipal administration are broken down between local and agglomeration powers in accordance with the criteria and calculation method defined in by-law RCG06-054, adopted by the Urban Agglomeration Council on December 31, 2006 and its subsequent changes.

Therefore, the portion of a mixed expenditure related to transportation, environmental hygiene, health and welfare, urban planning and development, as well as recreation and culture, which constitutes an expenditure incurred in exercising agglomeration powers, is determined using factual quantitative data or a quantitative measure of the human or financial resources allocated to the expenditure.

Also, the portion of a mixed expenditure that is a general administrative expenditure incurred by one or more support units in the exercise of agglomeration powers is determined using an administrative expenditure rate applied to the agglomeration expenditures, excluding debt service expenditures, contribution expenditures, contingency expenditures and mixed general administrative expenditures. The administrative expenditure rate is calculated annually on the basis of criteria set out in the above-mentioned by-laws. The rate applicable in 2016 was 9.30%.

The actual mixed expenditures are distributed based on the rates used to develop the City's 2016 Budget.

3. SIGNIFICANT ACCOUNTING POLICIES

The expenditures presented in the Breakdown of Mixed Expenditures Table are extracted from the consolidated financial statements of the Ville de Montréal for the year ended December 31, 2016, which are prepared in accordance with Canadian public sector accounting standards. Note 2 to the consolidated financial statements describes the accounting policies applied.

By their very nature, the mixed expenditures for the municipal administration do not include any tax reconciliation items.

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